

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input checked="" type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Unit Name City of Allegan	County Allegan
Fiscal Year End June 30, 2006	Opinion Date September 15, 2006	Date Audit Report Submitted to State December 20, 2006	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

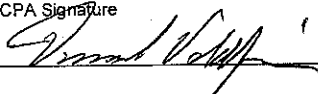
2
11
Y 2

Check each applicable box below. (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☐ ☒ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☒ ☐ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input type="checkbox"/>	Not considered necessary	
Other (Describe)	<input type="checkbox"/>	No other documents required	
Certified Public Accountant (Firm Name) Siegfried Crandall, PC		Telephone Number 269-381-4970	
Street Address 246 East Kilgore Road		City Kalamazoo	State MI
		Zip 49002	
Authorizing CPA Signature 		Printed Name Daniel L. Veldhuizen, CPA	
		License Number 1101020724	

City of Allegan
Allegan County, Michigan
**FINANCIAL STATEMENTS AND
INDEPENDENT AUDITORS' REPORT**
Year ended June 30, 2006

CONTENTS

	<i>Page</i>
MANAGEMENT'S DISCUSSION AND ANALYSIS	i - vii
INDEPENDENT AUDITORS' REPORT	3 - 4
BASIC FINANCIAL STATEMENTS	
Government-wide financial statements:	
Statement of net assets	5
Statement of activities	6
Fund financial statements:	
Balance sheet - governmental funds	7
Statement of revenues, expenditures, and changes in fund balances - governmental funds	8
Statement of net assets - proprietary funds	9
Statement of revenues, expenses, and changes in fund net assets - proprietary funds	10
Statement of cash flows - proprietary funds	11 - 12
Statement of fiduciary net assets - agency fund	13
Notes to financial statements	14 - 31
REQUIRED SUPPLEMENTARY INFORMATION	
Budgetary comparison schedule:	
General Fund	32
Capital Projects Fund	33
Capital Asset Improvement Sinking Fund	34
Schedule of funding progress - employee retirement system	35
SUPPLEMENTARY INFORMATION	
Combining balance sheet - nonmajor governmental funds	36
Combining statement of revenues, expenditures, and changes in fund balances - nonmajor governmental funds	37
Statement of revenues, expenditures, and changes in fund balances - budget and actual:	
General Fund	38 - 39
Major Street Fund	40
Local Street Fund	41
Wellness Center Fund	42
Library Fund	43
Revolving Loan Fund	44
Economic Development Fund	45
Theatre Fund	46
Cemetery Perpetual Care Fund	47
Auditorium and Library Fund	48
Capital Reserve Sinking Fund	49

CONTENTS (Continued)

	<i>Page</i>
Combining statement of net assets - internal service funds	50
Combining statement of revenues, expenses, and changes in net assets - internal service funds	51
Combining statement of cash flows - internal service funds	52
SUPPLEMENTARY DATA	
Schedules of debt retirement and annual interest requirements	53 - 59
OTHER INFORMATION	
Securities and Exchange Commission Rule 15c2-12 Continuing Disclosure	60 - 65

MANAGEMENT'S DISCUSSION AND ANALYSIS

City of Allegan
MANAGEMENT'S DISCUSSION AND ANALYSIS

Our discussion and analysis of the City of Allegan's (the City) financial performance provides a narrative overview of the City's financial activities for the fiscal year ended June 30, 2006. Please read it in conjunction with the City's financial statements.

FINANCIAL HIGHLIGHTS

- The City's total net assets increased by \$1,297,517 (7 percent) as a result of this year's activities. Net assets of the governmental activities increased by \$1,116,920, whereas net assets of the business-type activities increased by \$180,597.
- Of the \$20,682,731 total net assets reported, \$2,553,041 (12 percent) is unrestricted, or available to be used at the Council's discretion.
- The General Fund's unreserved, undesignated fund balance at the end of the fiscal year was \$1,391,787 which represents 42 percent of the actual total General Fund expenditures for the current fiscal year.

Overview of the financial statements

The City's basic financial statements are comprised of four parts: management's discussion and analysis, the basic financial statements, required supplementary information, and an optional section that presents combining statements for nonmajor governmental funds and internal service funds, as well as additional information. The basic financial statements include two kinds of statements that present different views of the City:

- The first two statements are government-wide financial statements that provide both long-term and short-term information about the City's overall financial status.
- The remaining statements are fund financial statements that focus on individual parts of the City, reporting the City's operations in more detail than the government-wide financial statements.
 - Governmental fund statements explain how general government services, like public safety, were financed in the short-term, as well as what balance remains for future spending.
 - Proprietary fund statements offer short- and long-term financial information about the activities the government operates like a business, such as the sewer and water systems.
 - Fiduciary fund statements provide information about the financial relationships in which the City acts solely as a trustee or agent for the benefit of others to whom the resources in question belong.

The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. The financial statements are followed by a section of required supplementary information that further explains and supports the information in the financial statements.

Government-wide financial statements

The government-wide financial statements report information about the City as a whole using accounting methods similar to those used by private-sector companies. The statement of net assets includes all of the City's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities, regardless of when cash is received or paid.

The two government-wide statements report the City's net assets and how they have changed. Net assets (the difference between the City's assets and liabilities) is one way to measure the City's financial health, or position.

- Over time, increases or decreases in the City's net assets are an indicator of whether its financial health is improving or deteriorating, respectively.
- To assess the overall health of the City, you need to consider additional nonfinancial factors such as changes in the City's property tax base and the condition of the City's capital assets.

The government-wide financial statements are divided into three categories:

- *Governmental activities* - Most of the City's basic services are included here, such as police protection, fire protection, library, and general government. Property taxes and state grants finance most of these activities.
- *Business-type activities* - The City charges fees to customers to help it cover the costs of certain services it provides. The City's sewer and water systems are reported here.
- *Component units* - The City includes two other entities in its report - the Downtown Development Authority and the Brownfield Development Authority. Although legally separate, these "component units" are important because the City is financially accountable for them.

Fund financial statements

The fund financial statements provide more detailed information about the City's most significant funds - not the City as a whole. Funds are accounting devices that the City uses to keep track of specific sources of funding and spending for particular purposes.

- Some funds are required by state law and by bond agreements.
- The City Council establishes other funds to control and manage money for particular purposes (like Wellness Center and Theatre operations) or to show that it is properly using certain taxes and other revenues (like property taxes collected for the Library and motor fuel taxes collected for the street funds).

The City has three kinds of funds:

1. *Governmental funds*. Most of the City's basic services are included in governmental funds, which focus on (1) how cash, and other financial assets that can be readily converted to cash, flow in and out and, (2) the balances left at year end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, we provide additional information at the bottom of the governmental funds statements that explain the relationship between them.

City of Allegan
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

2. *Proprietary funds.* Services for which the City charges customers a fee are generally reported in proprietary funds. Proprietary funds, like the government-wide statements, provide both long- and short-term financial information.
 - In fact, the City's enterprise funds (one type of proprietary fund) are the same as its business-type activities, but provide more detail and additional information, such as cash flows.
 - The City uses internal service funds (the other type of proprietary fund) to report activities that provide services for the City's other programs and activities. The City's internal service funds consist of an Equipment Fund and an Insurance Fund.
3. *Fiduciary funds.* These funds are used to account for the collection and disbursement of resources, primarily taxes, for the benefit of parties outside the government. The City is responsible for ensuring that the assets reported in these funds are used for their intended purposes. The City's fiduciary activities are reported in a separate statement of fiduciary net assets. We exclude these activities from the City's government-wide financial statements because the City cannot use these assets to finance its operations.

FINANCIAL ANALYSIS OF THE CITY AS A WHOLE

Net assets. Total net assets at the end of the fiscal year were \$20,682,731, an increase of 7 percent compared to the prior year. Of this total, \$13,423,560 is invested in capital assets, net of related debt and \$4,706,130 is restricted for various purposes. Consequently, unrestricted net assets were \$2,553,041, or 12 percent of the total.

Condensed financial information
 Net Assets

	<i>Governmental activities</i>		<i>Business-type activities</i>		<i>Totals</i>	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
Current and other assets	\$ 6,640,750	\$ 3,415,616	\$ 1,441,167	\$ 777,144	\$ 8,081,917	\$ 4,192,760
Capital assets	<u>11,205,000</u>	<u>12,606,747</u>	<u>12,720,815</u>	<u>14,771,688</u>	<u>23,925,815</u>	<u>27,378,435</u>
Total assets	<u>17,845,750</u>	<u>16,022,363</u>	<u>14,161,982</u>	<u>15,548,832</u>	<u>32,007,732</u>	<u>31,571,195</u>
Long-term debt	6,072,255	1,253,121	4,430,000	348,000	10,502,255	1,601,121
Other liabilities	<u>692,193</u>	<u>4,804,860</u>	<u>130,553</u>	<u>5,780,000</u>	<u>822,746</u>	<u>10,584,860</u>
Total liabilities	<u>6,764,448</u>	<u>6,057,981</u>	<u>4,560,553</u>	<u>6,128,000</u>	<u>11,325,001</u>	<u>12,185,981</u>
Net assets:						
Invested in capital assets, net of related debt	5,132,745	3,560,820	8,290,815	4,875,593	13,423,560	8,436,413
Restricted	<u>4,212,118</u>	<u>4,748,317</u>	<u>494,012</u>	<u>3,808,999</u>	<u>4,706,130</u>	<u>8,557,316</u>
Unrestricted	<u>1,736,439</u>	<u>1,655,245</u>	<u>816,602</u>	<u>736,240</u>	<u>2,553,041</u>	<u>2,391,485</u>
Total net assets	<u>\$ 11,081,302</u>	<u>\$ 9,964,382</u>	<u>\$ 9,601,429</u>	<u>\$ 9,420,832</u>	<u>\$ 20,682,731</u>	<u>\$ 19,385,214</u>

City of Allegan
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

FINANCIAL ANALYSIS OF THE GOVERNMENT AS A WHOLE (Continued)

Changes in net assets. The City's total revenues are \$8,073,011. More than 36 percent of the City's revenues come from property taxes and another 34 percent come from charges for services.

The total cost of all the City's programs, covering a wide range of services, totaled \$6,775,494. More than 29 percent of the City's costs relate to the provision of utility services. Public safety costs account for 24 percent of the costs and general government costs account for 15 percent of the City's total costs.

Condensed financial information
Changes in Net Assets

	<i>Governmental activities</i>		<i>Business-type activities</i>		<i>Totals</i>	
	2006	2005	2006	2005	2006	2005
Program revenues:						
Charges for services	\$ 582,936	\$ 577,151	\$ 2,170,677	\$ 1,979,327	\$ 2,753,613	\$ 2,556,478
Operating grants and contributions	796,153	629,538	-	-	796,153	629,538
Capital grants and contributions	676,544	76,543	-	-	676,544	76,543
General revenues:						
Property taxes	2,941,893	2,814,590	-	-	2,941,893	2,814,590
State shared revenue	528,474	533,914	-	-	528,474	533,914
Unrestricted investment return	268,802	274,021	1,838	4,305	270,640	278,326
Miscellaneous	105,694	65,053	-	67,736	105,694	132,789
Total revenues	5,900,496	4,970,810	2,172,515	2,051,368	8,073,011	7,022,178
Expenses:						
Legislative	15,647	15,534	-	-	15,647	15,534
General government	1,026,110	880,552	-	-	1,026,110	880,552
Public safety	1,652,277	1,514,487	-	-	1,652,277	1,514,487
Public works	819,042	759,218	-	-	819,042	759,218
Community and economic development	118,915	42,415	-	-	118,915	42,415
Culture and recreation	962,635	1,068,270	-	-	962,635	1,068,270
Interest	188,950	168,649	-	-	188,950	168,649
Sewer	-	-	1,018,294	1,204,597	1,018,294	1,204,597
Water	-	-	973,624	1,109,925	973,624	1,109,925
Total expenses	4,783,576	4,449,125	1,991,918	2,314,522	6,775,494	6,763,647
Increase (decrease) in net assets	\$ 1,116,920	\$ 521,685	\$ 180,597	\$ (263,154)	\$ 1,297,517	\$ 258,531

Governmental activities. Governmental activities increased the City's net assets by \$1,116,920. Key factors for this increase include:

- Grant revenue, that financed capital projects, amounted to 676,544
- An increase in property tax revenues of \$127,300
- Spending reductions and cost containment

City of Allegan
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

The cost of all governmental activities this year was \$4,783,576. After subtracting the direct charges to those who directly benefited from the programs (\$582,936), and operating and capital grants (\$1,472,697), the "public benefit" portion covered by property taxes, state revenue sharing, and other general revenues was \$2,727,943.

Business-type activities. Business-type activities increased the City's net assets by \$180,597. The Sewer Fund generated a net decrease of \$25,856 because the rates are not currently set to cover the cost of depreciation of the wastewater treatment infrastructure. The net assets of the Water Fund increased by \$206,453.

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

Governmental funds. As of the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$5,848,324, a decrease of \$400,936 in comparison with the prior year. Of the total fund balances, 40 percent constitutes unreserved fund balance, which is available for spending at the City's discretion. The remainder of fund balance is reserved to indicate that it is not available for new spending because it has already been committed (1) for capital projects in the next year (\$419,569), (2) for future capital projects (\$2,952,871), (3) to generate income to pay for the perpetual care of the municipal cemetery (\$162,398), or (4) for specific Library expenditures (\$29,890).

The General Fund is the chief operating fund of the City. At the end of the fiscal year, unreserved fund balance was \$1,391,787, which represents 42 percent of the actual total General Fund expenditures for the current fiscal year. Total fund balance increased by \$330,971 because of increased property tax and grant revenues that outpaced expenditure increases.

The Capital Projects fund experienced a decrease in fund balance of \$684,956. The decrease was created through the expenditure of bond proceeds received in 2004.

The Capital Asset Improvement Sinking Fund experienced a decrease in fund balance in the amount of \$120,555 because transfers to other funds exceeded investment earnings.

Proprietary funds. The Sewer Fund experienced a decrease in net assets of \$25,856 due to an increase in expenses. Total net assets are \$6,314,007 at year end of which \$526,367 is unrestricted.

The Water Fund experienced an increase in net assets of \$206,453 due to an increase in the water usage rate and cost containment. Total net assets are \$3,287,422 at year end of which \$290,235 is unrestricted.

General Fund budgetary highlights

The difference between the original budget and the final amended budget for expenditures was an increase of \$144,900. The budgeted expenditures were increased primarily due to increases in project costs.

Expenditures were \$369,468 less than the amount budgeted. This difference is explained by reduced expenditure reductions in general government (\$119,000), public works (\$160,000), and culture and recreation (\$90,468).

City of Allegan
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

Capital assets and debt administration

Capital assets.

The City's investment in capital assets for its governmental and business-type activities as of June 30, 2006, amounts to \$23,925,815 (net of accumulated depreciation). This investment includes a broad range of assets including police and fire equipment, buildings, and sewer and water facilities. The increase in the City's net investment in capital assets for the current fiscal year was \$5,235,553.

	<u>Governmental activities</u>	<u>Business-type activities</u>	<u>Totals</u>
Infrastructure	\$ 7,373,321	\$ 12,680,230	\$ 20,053,551
Buildings and improvements	1,785,572	-	1,785,572
Furniture, equipment, and books	1,114,397	-	1,114,397
Land	<u>931,710</u>	<u>40,585</u>	<u>972,295</u>
Totals	<u>\$ 11,205,000</u>	<u>\$ 12,720,815</u>	<u>\$ 23,925,815</u>

Major capital asset events during the current fiscal year included the following:

- Capital improvement projects to replace sewer and water lines and resurface streets totaled \$4,673,523.
- Infrastructure improvements on Brady Street amounted to \$394,899.
- Equipment purchases totaling \$71,839.
- Police vehicle and equipment purchases totaling \$53,134.

More detailed information about the City's capital assets is presented in Note 5 of the notes to the basic financial statements.

Long-term debt.

At the end of the fiscal year, the City had total long-term bonds and notes outstanding in the amount of \$10,502,255 which represents a decrease of \$613,544 or 6 percent. Of this amount, \$9,617,255 comprises debt backed by the full faith and credit of the City. Another \$885,000 represents bonds secured solely by specific revenue sources (i.e., revenue bonds).

During the current year, the City reallocated \$1,350,000 of its 2004 Capital Improvement bonds to the governmental activities from the Water Fund to reflect the actual allocation of project costs.

State statutes limit the amount of general obligation debt the City can issue to 10 percent of its total state equalized assessed value of property. The City's total general obligation debt (\$9,617,255) is significantly lower than the current state-imposed limit of \$20,488,640.

Other long-term debt obligations totaling \$116,872 represent accrued compensated absences.

More detailed information about the City's long-term liabilities is presented in Note 8 of the notes to the basic financial statements.

Economic condition and outlook

Due to cost containment and improved efficiencies, the City maintains an adequate fund balance in the General Fund. The City has strengthened operational procedures and maximized financial obligations. Property tax revenue is expected to increase 4.5% in the subsequent budget year. Other revenues are expected to remain stable, including state shared revenue, which has been reduced each of the last four years. Revenues of the next fiscal year are projected to cover all operational expenditures.

Contacting the City's financial management

This financial report is designed to provide our citizens, taxpayers, customers, investors, and creditors with a general overview of the City's finances and to demonstrate the City's accountability for the resources it receives. Questions regarding any information provided in this report or requests for additional financial information should be addressed to:

Tracie Moored, Treasurer/Finance Director
City of Allegan
112 Locust Street
Allegan, MI 49010-1390

Phone: (269) 673-5511
E-mail: TMoored@cityofallegan.org

INDEPENDENT AUDITORS' REPORT

City Council
City of Allegan, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely-presented component units, each major fund, and the aggregate remaining fund information of the City of Allegan, Michigan, as of June 30, 2006, and for the year then ended, which collectively comprise the City of Allegan, Michigan's financial statements, as listed in the contents. These financial statements are the responsibility of the City of Allegan, Michigan's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely-presented component units, each major fund, and the aggregate remaining fund information of the City of Allegan, Michigan, as of June 30, 2006, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with U.S. generally accepted accounting principles.

The management's discussion and analysis, budgetary comparison schedules, and the schedule of funding progress of the employee retirement system, as listed in the contents, are not required parts of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Allegan, Michigan's basic financial statements. The supplementary information and supplementary data, as listed in the contents, are presented for the purpose of additional analysis and are not required parts of the basic financial statements. The supplementary information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

City Council
City of Allegan, Michigan
Page 2

The other information designated as "Securities and Exchange Commission Rule 15c2-12 Continuing Disclosure" in the contents is also presented for the purpose of additional analysis and is not a required part of the basic financial statements of the City of Allegan, Michigan. Such information has not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion thereon.

Sigfried Crandall P.C.

September 15, 2006

BASIC FINANCIAL STATEMENTS

City of Allegan
STATEMENT OF NET ASSETS
June 30, 2006

	Primary government			Component units	
	Governmental Activities	Business-type Activities	Totals	Downtown Development Authority	Brownfield Redevelopment Authority
ASSETS					
Current assets:					
Cash	\$ 829,930	\$ 250,251	\$ 1,080,181	\$ 56,065	\$ 19,466
Investments	1,884,109	251,585	2,135,694	295,118	-
Receivables	685,521	376,227	1,061,748	-	-
Prepaid expenses	36,698	-	36,698	-	-
Total current assets	<u>3,436,258</u>	<u>878,063</u>	<u>4,314,321</u>	<u>351,183</u>	<u>19,466</u>
Noncurrent assets:					
Restricted cash	495,680	494,012	989,692	295,600	-
Restricted investments	2,685,720	-	2,685,720	-	-
Unamortized bond issuance costs	23,092	69,092	92,184	-	-
Land	931,710	40,585	972,295	-	-
Depreciable capital assets, net	10,273,290	12,680,230	22,953,520	-	-
Total noncurrent assets	<u>14,409,492</u>	<u>13,283,919</u>	<u>27,693,411</u>	<u>295,600</u>	<u>-</u>
Total assets	<u>17,845,750</u>	<u>14,161,982</u>	<u>32,007,732</u>	<u>646,783</u>	<u>19,466</u>
LIABILITIES					
Current liabilities:					
Payables	575,321	130,553	705,874	9,714	-
Bonds and notes payable	488,279	223,000	711,279	15,000	-
Total current liabilities	<u>1,063,600</u>	<u>353,553</u>	<u>1,417,153</u>	<u>24,714</u>	<u>-</u>
Noncurrent liabilities:					
Compensated absences	116,872	-	116,872	-	-
Bonds and notes payable	5,583,976	4,207,000	9,790,976	255,000	-
Total noncurrent liabilities	<u>5,700,848</u>	<u>4,207,000</u>	<u>9,907,848</u>	<u>255,000</u>	<u>-</u>
Total liabilities	<u>6,764,448</u>	<u>4,560,553</u>	<u>11,325,001</u>	<u>279,714</u>	<u>-</u>
NET ASSETS					
Invested in capital assets, net of related debt	5,132,745	8,290,815	13,423,560	-	-
Restricted for:					
Public works	366,164	-	366,164	-	-
Economic development	57,152	-	57,152	-	-
Culture and recreation	253,964	-	253,964	-	-
Debt service	-	145,527	145,527	-	-
Capital projects	3,372,440	348,485	3,720,925	295,600	-
Perpetual care	162,398	-	162,398	-	-
Unrestricted	1,736,439	816,602	2,553,041	71,469	19,466
Total net assets	<u>\$ 11,081,302</u>	<u>\$ 9,601,429</u>	<u>\$ 20,682,731</u>	<u>\$ 367,069</u>	<u>\$ 19,466</u>

See notes to the financial statements

City of Allegan
STATEMENT OF ACTIVITIES
Year ended June 30, 2006

Functions /Programs	<u>Expenses</u>	<u>Program revenues</u>		
		<u>Charges for services</u>	<u>Operating grants and contributions</u>	<u>Capital grants and contributions</u>
Primary government:				
Governmental activities:				
Legislative	\$ 15,647	\$ -	\$ -	\$ -
General government	1,026,110	29,482	9,247	-
Public safety	1,652,277	159,659	59,880	1,311
Public works	819,042	75,223	647,022	675,233
Community and economic development	118,915	-	-	-
Culture and recreation	962,635	318,572	80,004	-
Interest on long-term debt	188,950	-	-	-
Total governmental activities	<u>4,783,576</u>	<u>582,936</u>	<u>796,153</u>	<u>676,544</u>
Business-type activities:				
Sewer	1,018,294	995,534	-	-
Water	973,624	1,175,143	-	-
Total business-type activities	<u>1,991,918</u>	<u>2,170,677</u>	<u>-</u>	<u>-</u>
Total primary government	<u>\$ 6,775,494</u>	<u>\$ 2,753,613</u>	<u>\$ 796,153</u>	<u>\$ 676,544</u>
Component units:				
Downtown Development Authority	\$ 170,329	\$ -	\$ -	\$ -
Brownfield Redevelopment Authority	25	-	-	-
Total component units	<u>\$ 170,354</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

General revenues:
Property taxes
State shared revenue
Unrestricted investment return
Franchise fees
Other

Total general revenues and transfers

Change in net assets

Net assets - beginning

Net assets - ending

Net (expenses) revenues and changes in net assets				
Primary government			Component units	
Governmental activities	Business-type activities	Totals	Downtown Development Authority	Brownfield Redevelopment Authority
\$ (15,647)		\$ (15,647)		
(987,381)		(987,381)		
(1,431,427)		(1,431,427)		
578,436		578,436		
(118,915)		(118,915)		
(564,059)		(564,059)		
(188,950)		(188,950)		
(2,727,943)		(2,727,943)		
	\$ (22,760)	(22,760)		
	201,519	201,519		
	178,759	178,759		
(2,727,943)	178,759	(2,549,184)		
			\$ (170,329)	\$ -
			-	(25)
			(170,329)	(25)
2,941,893	-	2,941,893	130,911	-
528,474	-	528,474	-	-
268,802	1,838	270,640	4,990	184
51,074	-	51,074	-	-
54,620	-	54,620	3,043	-
3,844,863	1,838	3,846,701	138,944	184
1,116,920	180,597	1,297,517	(31,385)	159
9,964,382	9,420,832	19,385,214	398,454	19,307
\$ 11,081,302	\$ 9,601,429	\$ 20,682,731	\$ 367,069	\$ 19,466

See notes to the financial statements

City of Allegan
BALANCE SHEET - governmental funds
June 30, 2006

	<u>General</u>	<u>Capital Projects</u>	<u>Capital Asset Improvement Sinking</u>	<u>Nonmajor governmental funds</u>	<u>Total governmental funds</u>
ASSETS					
Cash	\$ -	\$ 495,680	\$ 403,654	\$ 426,276	\$ 1,325,610
Investments	1,249,086	-	2,685,720	458,810	4,393,616
Receivables	267,298	333,736	-	84,487	685,521
Due from other funds	44,553	-	-	135,329	179,882
Total assets	<u>\$ 1,560,937</u>	<u>\$ 829,416</u>	<u>\$ 3,089,374</u>	<u>\$ 1,104,902</u>	<u>\$ 6,584,629</u>
LIABILITIES AND FUND BALANCES					
Liabilities:					
Payables	\$ 91,074	\$ 409,847	\$ -	\$ 20,805	\$ 521,726
Due to other funds	43,379	-	136,503	-	179,882
Deferred revenue	34,697	-	-	-	34,697
Total liabilities	<u>169,150</u>	<u>409,847</u>	<u>136,503</u>	<u>20,805</u>	<u>736,305</u>
Fund balances:					
Reserved:					
Capital projects	-	419,569	2,952,871	-	3,372,440
Perpetual care	-	-	-	162,398	162,398
Culture and recreation	-	-	-	29,890	29,890
Unreserved	1,391,787	-	-	-	1,391,787
Unreserved, reported in nonmajor special revenue funds	-	-	-	891,809	891,809
Total fund balances	<u>1,391,787</u>	<u>419,569</u>	<u>2,952,871</u>	<u>1,084,097</u>	<u>5,848,324</u>
Total liabilities and fund balances	<u>\$ 1,560,937</u>	<u>\$ 829,416</u>	<u>\$ 3,089,374</u>	<u>\$ 1,104,902</u>	<u>\$ 6,584,629</u>
Total fund balances - total governmental funds					\$ 5,848,324
Amounts reported for <i>governmental activities</i> in the statement of net assets (page 5) are different because:					
Capital assets used in governmental activities are not financial resources and are not reported in the funds.					10,561,243
Other long-term assets are not available to pay for current-period expenditures and are deferred in the funds.					57,789
Internal service funds are used by management to charge the costs of fleet management and various insurances to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net assets.					849,873
Compensated absence and accrued interest liabilities are not due and payable in the current period and are not reported in the funds.					(163,672)
Bonds payable are not due and payable in the current period and are not reported in the funds.					(6,072,255)
Net assets of <i>governmental activities</i>					<u>\$ 11,081,302</u>

See notes to the financial statements

City of Allegan

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - governmental funds

Year ended June 30, 2006

	<u>General</u>	<u>Capital Projects</u>	<u>Capital Asset Improvement Sinking</u>	<u>Nonmajor governmental funds</u>	<u>Total governmental funds</u>
REVENUES					
Property taxes	\$ 2,715,767	\$ -	\$ -	\$ 226,126	\$ 2,941,893
Licenses and permits	16,014	-	-	-	16,014
Federal grants	219,767	333,736	-	-	553,503
State grants	529,625	281,250	-	383,536	1,194,411
Contributions from local units	91,284	60,247	-	151,000	302,531
Charges for services	70,979	-	-	197,425	268,404
Fines and forfeitures	30,843	-	-	130,488	161,331
Investment return and rentals	219,645	92,586	58,551	10,754	381,536
Other	62,435	-	-	24,162	86,597
Total revenues	<u>3,956,359</u>	<u>767,819</u>	<u>58,551</u>	<u>1,123,491</u>	<u>5,906,220</u>
EXPENDITURES					
Legislative	15,647	-	-	-	15,647
General government	942,277	-	-	10,350	952,627
Public safety	1,520,142	-	-	-	1,520,142
Public works	179,091	2,882,916	-	411,272	3,473,279
Community and economic development	22,840	-	-	1,406	24,246
Culture and recreation	353,407	-	-	614,706	968,113
Capital outlay	127,261	-	-	5,451	132,712
Debt service:	-	-	-	-	-
Principal	76,242	232,302	-	70,000	378,544
Interest	90,739	101,107	-	-	191,846
Total expenditures	<u>3,327,646</u>	<u>3,216,325</u>	<u>-</u>	<u>1,113,185</u>	<u>7,657,156</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>628,713</u>	<u>(2,448,506)</u>	<u>58,551</u>	<u>10,306</u>	<u>(1,750,936)</u>
OTHER FINANCING SOURCES (USES)					
Reallocation of prior year bond proceeds	-	1,350,000	-	-	1,350,000
Transfers in	94,553	413,550	-	103,298	611,401
Transfers out	(392,295)	-	(179,106)	(40,000)	(611,401)
Total other financing sources (uses)	<u>(297,742)</u>	<u>1,763,550</u>	<u>(179,106)</u>	<u>63,298</u>	<u>1,350,000</u>
NET CHANGE IN FUND BALANCES	<u>330,971</u>	<u>(684,956)</u>	<u>(120,555)</u>	<u>73,604</u>	<u>(400,936)</u>
FUND BALANCES - BEGINNING	<u>1,060,816</u>	<u>1,104,525</u>	<u>3,073,426</u>	<u>1,010,493</u>	<u>6,249,260</u>
FUND BALANCES - ENDING	<u>\$ 1,391,787</u>	<u>\$ 419,569</u>	<u>\$ 2,952,871</u>	<u>\$ 1,084,097</u>	<u>\$ 5,848,324</u>
Net change in fund balances - total governmental funds					\$ (400,936)
Amounts reported for <i>governmental activities</i> in the statement of activities (page 6) are different because:					
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the costs of those assets are allocated over their estimated useful lives as depreciation expense.					
Add: Capital asset acquisitions					2,943,633
Deduct: Provision for depreciation					(371,710)
Long-term debt:					
Reallocation of prior year bond proceeds that increased capital debt					(1,350,000)
Principal repayments					378,544
Changes in other assets and liabilities:					
Amortization of bond issuance costs					(1,004)
Net increase in compensated absences					(33,936)
Net decrease in accrued interest payable					3,900
Net decrease in deferred revenue					(10,303)
The net losses of certain activities of the internal service funds is reported with governmental activities.					(41,268)
Change in net assets of <i>governmental activities</i>					<u>\$ 1,116,920</u>

See notes to the financial statements

City of Allegan
STATEMENT OF NET ASSETS - proprietary funds
June 30, 2006

	<u>Business-type activities - Enterprise funds</u>			<u>Governmental Activities</u>
	<u>Sewer</u>	<u>Water</u>	<u>Totals</u>	<u>Internal Service</u>
ASSETS				
Current assets:				
Cash	\$ 144,151	\$ 106,100	\$ 250,251	\$ -
Investments	251,585	-	251,585	176,213
Receivables	164,041	212,186	376,227	-
Prepays	-	-	-	36,698
Total current assets	<u>559,777</u>	<u>318,286</u>	<u>878,063</u>	<u>212,911</u>
Noncurrent assets:				
Restricted cash	139,180	354,832	494,012	-
Unamortized bond issuance costs, net	26,956	42,136	69,092	-
Land	-	40,585	40,585	-
Depreciable capital assets, net	<u>7,558,460</u>	<u>5,121,770</u>	<u>12,680,230</u>	<u>643,757</u>
Total noncurrent assets	<u>7,724,596</u>	<u>5,559,323</u>	<u>13,283,919</u>	<u>643,757</u>
Total assets	<u>8,284,373</u>	<u>5,877,609</u>	<u>14,161,982</u>	<u>856,668</u>
LIABILITIES				
Current liabilities:				
Payables	60,366	70,187	130,553	6,795
Bonds payable	<u>50,000</u>	<u>173,000</u>	<u>223,000</u>	<u>-</u>
Total current liabilities	110,366	243,187	353,553	6,795
Noncurrent liabilities:				
Bonds payable	<u>1,860,000</u>	<u>2,347,000</u>	<u>4,207,000</u>	<u>-</u>
Total liabilities	<u>1,970,366</u>	<u>2,590,187</u>	<u>4,560,553</u>	<u>6,795</u>
NET ASSETS				
Invested in capital assets, net of related debt	5,648,460	2,642,355	8,290,815	643,757
Restricted for:				
Debt service	-	145,527	145,527	-
Capital projects	139,180	209,305	348,485	-
Unrestricted	<u>526,367</u>	<u>290,235</u>	<u>816,602</u>	<u>206,116</u>
Total net assets	<u>\$ 6,314,007</u>	<u>\$ 3,287,422</u>	<u>\$ 9,601,429</u>	<u>\$ 849,873</u>

See notes to the financial statements

City of Allegan

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS - *proprietary funds*

Year ended June 30, 2006

	<u><i>Business-type activities - Enterprise funds</i></u>			<u><i>Governmental Activities</i></u>
	<u><i>Sewer</i></u>	<u><i>Water</i></u>	<u><i>Totals</i></u>	<u><i>Internal Service</i></u>
OPERATING REVENUES				
Charges for services	\$ 980,621	\$ 1,124,094	\$ 2,104,715	\$ 915,442
Other	14,913	51,049	65,962	24,905
Total operating revenues	995,534	1,175,143	2,170,677	940,347
OPERATING EXPENSES				
Administration	96,706	96,706	193,412	-
Plant	509,536	554,915	1,064,451	-
Wastewater collection	159,910	-	159,910	-
Water distribution	-	113,245	113,245	-
Meter reading	14,710	18,361	33,071	-
Depreciation	236,260	137,842	374,102	100,381
Amortization	1,172	1,832	3,004	-
Costs of interfund services	-	-	-	885,813
Total operating expenses	1,018,294	922,901	1,941,195	986,194
OPERATING INCOME (LOSS)	(22,760)	252,242	229,482	(45,847)
NONOPERATING REVENUES (EXPENSES)				
Investment return	(3,096)	4,934	1,838	4,579
Interest expense	(89,219)	(195,906)	(285,125)	-
Less: Capitalized interest	89,219	145,183	234,402	-
Total nonoperating revenues (expenses)	(3,096)	(45,789)	(48,885)	4,579
CHANGE IN NET ASSETS	(25,856)	206,453	180,597	(41,268)
NET ASSETS - BEGINNING	6,339,863	3,080,969	9,420,832	891,141
NET ASSETS - ENDING	\$ 6,314,007	\$ 3,287,422	\$ 9,601,429	\$ 849,873

See notes to the financial statements

City of Allegan
STATEMENT OF CASH FLOWS - proprietary funds
Year ended June 30, 2006

	<u>Business-type activities - Enterprise funds</u>			<u>Governmental Activities</u>
	<u>Sewer</u>	<u>Water</u>	<u>Totals</u>	<u>Internal Service</u>
CASH FLOWS FROM OPERATING ACTIVITIES				
Receipts from customers	\$ 991,750	\$ 1,170,049	\$ 2,161,799	\$ -
Receipts from interfund services provided	-	-	-	940,347
Payments to suppliers	(531,979)	(471,887)	(1,003,866)	(834,628)
Payments to employees	(210,044)	(287,334)	(497,378)	(38,589)
Payments for interfund services used	(23,859)	(19,733)	(43,592)	-
Net cash provided by operating activities	225,868	391,095	616,963	67,130
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
Reallocation of prior year bond proceeds	-	(1,350,000)	(1,350,000)	-
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Acquisition of capital assets	(768,461)	(1,201,461)	(1,969,922)	(71,839)
Principal payments on capital debt	(50,000)	(185,000)	(235,000)	-
Interest payments on capital debt	(89,519)	(197,305)	(286,824)	-
Net cash used in capital and related financing activities	(907,980)	(1,583,766)	(2,491,746)	(71,839)
CASH FLOWS FROM INVESTING ACTIVITIES				
Purchase of investments	(251,585)	-	(251,585)	(176,213)
Interest received	(3,096)	4,934	1,838	4,579
Net cash provided by (used in) investing activities	(254,681)	4,934	(249,747)	(171,634)
NET DECREASE IN CASH	(936,793)	(2,537,737)	(3,474,530)	(176,343)
CASH - BEGINNING (including \$3,808,999 in restricted accounts)	1,220,124	2,998,669	4,218,793	176,343
CASH - ENDING (including \$494,012 in restricted accounts)	\$ 283,331	\$ 460,932	\$ 744,263	\$ -

See notes to the financial statements

City of Allegan
STATEMENT OF CASH FLOWS - proprietary funds (Continued)
Year ended June 30, 2006

	<u>Business-type activities - Enterprise funds</u>			<u>Governmental Activities</u>
	<u>Sewer</u>	<u>Water</u>	<u>Totals</u>	<u>Internal Service</u>
Reconciliation of operating income (loss) to net cash provided by operating activities:				
Operating income (loss)	\$ (22,760)	\$ 252,242	\$ 229,482	\$ (45,847)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:				
Depreciation	236,260	137,842	374,102	100,381
Amortization	1,172	1,832	3,004	-
(Increase) decrease in:				
Receivables	(3,784)	(5,094)	(8,878)	-
Prepays	-	-	-	8,809
Increase in payables	14,980	4,273	19,253	3,787
Net cash provided by operating activities	<u>\$ 225,868</u>	<u>\$ 391,095</u>	<u>\$ 616,963</u>	<u>\$ 67,130</u>

See notes to the financial statements

City of Allegan

STATEMENT OF FIDUCIARY NET ASSETS - *agency fund*

June 30, 2006

ASSETS

Cash	\$ <u>9,673</u>
------	-----------------

LIABILITIES

Due to other governmental units	\$ <u>9,673</u>
---------------------------------	-----------------

See notes to the financial statements

City of Allegan
NOTES TO FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The accounting policies of the City of Allegan, Michigan (the City), conform to U.S. generally accepted accounting principles (hereinafter referred to as generally accepted accounting principles) as applicable to governmental units. The following is a summary of the significant accounting policies.

a) Reporting entity:

The accompanying financial statements present the City and its component units, entities for which the government is considered to be financially accountable. Each discretely-presented component unit is reported in a separate column in the government-wide financial statements to emphasize that it is legally from the City.

Discretely-presented component units:

Downtown Development Authority and Brownfield Development Authority:

Each component units' governing body is appointed by the City Council and their budgets must be approved by the City Council. Separate financial statements for the component units have not been issued, as management believes that these financial statements, including disclosures, contain complete information so as to constitute a fair presentation of each component unit.

Hospital Finance Authority:

The Hospital Finance Authority was created to provide a method to enable nonprofit, nonpublic hospitals to provide facilities and services for health care and, to accomplish these purposes, the Authority is authorized to issue bonds. A three-person Commission, appointed by the City Council, governs the Authority that may not issue debt without the approval of the City Council. The Authority has no assets, liabilities, equity, revenue, or expenses; therefore, no separate columns have been included in the financial statements associated with the Authority.

b) Government-wide and fund financial statements:

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the City. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

City of Allegan
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

c) Measurement focus, basis of accounting, and financial statement presentation:

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenues as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are expected to be collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

State grants, licenses and permits, charges for services, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the City.

The City reports the following major governmental funds:

The General Fund is the City's primary operating fund. It accounts for all financial resources of the City, except those required to be accounted for in another fund. Revenues are primarily derived from property taxes and state shared revenue.

The Capital Asset Improvement Sinking Fund accounts for financial resources to be used to purchase capital additions, improvements, or betterments. Revenues are derived from the investment earnings of a trust fund established in 1967 when the City sold its electric utility facilities.

The Capital Projects Fund accounts for financial resources to be used for the acquisition or construction of major capital facilities other than those financed by proprietary funds.

The City reports the following major proprietary funds:

The Sewer Fund accounts for the activities of the City's sewage collection systems and treatment plant.

The Water Fund accounts for the activities of the City's water distribution system.

Additionally, the City reports internal service funds that account for fleet management services and insurances provided to other departments of the City on a cost-reimbursement basis.

City of Allegan
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

c) Measurement focus, basis of accounting, and financial statement presentation (continued):

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The City has elected not to follow subsequent private-sector standards.

Amounts reported as program revenues include: (1) charges to customers or applicants for goods, services, or privileges provided; (2) operating grants and contributions; and (3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the proprietary funds are charges to customers for sales and services. Operating expenses for proprietary funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

d) Assets, liabilities, and net assets or equity:

- i) Cash and investments* - Cash is considered to be cash on hand, demand deposits, time deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

All investments are reported at fair market value, with changes in value recognized in the operating statement of each fund. Realized and unrealized gains and losses are included in investment income. Pooled investment income is proportionately allocated to all funds.

- ii) Receivables* - Activity between funds that is representative of lending/borrowing arrangements outstanding at the end of the fiscal year is referred to as "due to/from other funds." Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as "internal balances." No allowance for uncollectible accounts has been recorded as the City considers all receivables to be fully collectible.

- iii) Prepaid items* - Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in the government-wide financial statements.

- iv) Restricted assets* - Certain bond proceeds and resources set aside for their repayment are classified as restricted assets because they are maintained in separate bank accounts and their use is limited by applicable bond covenants.

- v) Capital assets* - Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities column in the government-wide financial statements.

City of Allegan
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

d) Assets, liabilities, and net assets or equity (continued):

- v) Capital assets (continued):* Capital assets are defined by the City as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Capital assets are depreciated using the straight-line method over the following useful lives:

Buildings and improvements	20 - 40 years
Equipment	3 - 20 years
Vehicles	4 - 20 years
Sewer and water systems	50 years

- vi) Compensated absences* - It is the City's policy to permit employees to accumulate earned but unused sick and vacation pay benefits. A liability for unpaid accumulated vacation and sick leave has been recorded for the portion due to employees upon separation from service with the City. Vested compensated absences are accrued when earned in the government-wide and proprietary fund financial statements. A liability for these amounts is reported in governmental funds only for employee terminations as of year end.

- vii) Fund equity* - In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

viii) Property tax revenue recognition:

Property taxes are levied as of July 1 on property values assessed as of December 31 of the prior year. The billings are due on or before August 10, after which time the bill becomes delinquent and penalties and interest may be assessed by the City. Property tax revenue is recognized in the year for which taxes have been levied and become available. The City levy date is July 1, and, accordingly, the total levy is recognized as revenue in the current year.

NOTE 2 - STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY:

Budgetary information - Annual budgets are adopted on a basis consistent with generally accepted accounting principles for the City's general and special revenue funds. The budget document presents information by fund, function, department, and line-item. The legal level of budgetary control adopted by the governing body is the function level. All annual appropriations lapse at the end of the fiscal year.

Excess of expenditures over appropriations in budgeted funds - The following schedule sets forth significant budget variances:

<u>Fund</u>	<u>Function</u>	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
Major Street	Debt service - principal	\$ 20,000	\$ 30,000	\$ 10,000
Local Street	Debt service - principal	30,000	40,000	10,000

City of Allegan
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 3 - CASH AND INVESTMENTS:

At June 30, 2006, cash and investments are classified in the accompanying financial statements as follows:

Statement of net assets:

Primary government:	
Cash	\$ 1,080,181
Investments	2,135,694
Restricted cash	989,692
Restricted investments	2,685,720
Component units:	
Cash	75,531
Investments	295,118
Restricted cash	295,600
Fiduciary fund - cash	<u>9,673</u>
Total cash and investments	<u>\$ 7,567,209</u>

At June 30, 2006, cash and investments consist of the following:

Cash on hand	\$ 657
Deposits with financial institutions	2,450,020
Investments	<u>5,116,532</u>
Total	<u>\$ 7,567,209</u>

Deposits with financial institutions:

Michigan Compiled Laws Section 129.91 (Public Act 20 of 1943, as amended) and the City's investment policy authorize the City to make deposits in the accounts of federally-insured banks, credit unions, and savings and loan associations that have an office in Michigan. The City's deposits are in accordance with statutory authority.

Custodial credit risk of deposits is the risk that, in the event of the failure of a depository financial institution, the City will not be able to recover its deposits. Deposits are exposed to custodial credit risk if they are not covered by depository insurance and are uncollateralized. As of June 30, 2006, \$1,747,734 of the City's bank balances of \$2,110,051 was exposed to custodial credit risk because it was uninsured. The City maintains individual and pooled cash accounts for all of its funds and its component units. Due to use of pooled deposits, it is not practicable to allocate insured and uninsured portions of certain bank balances between the primary government and its component units. The insured portion of the bank balance has been allocated entirely to the primary government.

The City believes that it is impractical to insure all bank deposits due to the amounts of the deposits and the limits of FDIC insurance. As a result, the City evaluates each financial institution with which it deposits funds and assesses the risk level of each institution. Only the institutions with an acceptable estimated risk level are used as depositories.

City of Allegan
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 3 - CASH AND INVESTMENTS (Continued):

Investments:

State statutes and the City's investment policy authorize the City to invest in a) obligations of the U.S. Treasury, agencies, and instrumentalities; b) commercial paper rated within the two highest rate classifications, which mature not more than 270 days after the date of purchase; c) repurchase agreements, collateralized by U.S. governmental securities; d) bankers' acceptances; and e) mutual funds composed of otherwise legal investments.

The City's investments are subject to several types of risk, which are discussed below:

Custodial credit risk. Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g. broker-dealer) to a transaction, the City will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. State statutes and the City's investment policy do not contain requirements that would limit the exposure to custodial credit risk for investments. At year end, the following investment securities were uninsured and unregistered and held by the same broker-dealer (counterparty) that purchased the securities for the City:

<u>Investment type</u>	<u>Carrying amount</u>
U.S. government and agency securities	<u>\$ 5,116,532</u>

Interest rate risk. Interest rate risk is the risk that the value of an investment will decrease as a result of an increase in market interest rates. Generally, longer investment maturities generate more sensitivity to changes in an investment's fair value due to changes in market interest rates. The City monitors the interest rate risk inherent in its portfolio by measuring the weighted average maturity of its portfolio. The City's investment policy has no specific limitations with respect to maturities of investments. At year end, the average maturities of the City's investments are as follows:

<u>Investment type</u>	<u>Fair value</u>	<u>Weighted average maturity (in years)</u>
U.S. government and agency securities:		
Treasury notes	\$ 1,011,299	1.25
Federal Home Loan Bank	2,183,980	2.12
Federal Farm Credit Bank	197,282	2.50
Federal National Mortgage Association	1,350,469	2.71
Federal Home Loan Mortgage Corporation	373,137	3.50
Government National Mortgage Association pool	<u>365</u>	N/A
	<u>\$ 5,116,532</u>	

City of Allegan
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 3 - CASH AND INVESTMENTS (Continued):

Credit risk. Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This risk is measured by the assignment of a rating by a nationally recognized statistical rating organization. At year end, the credit quality ratings of the City's investments are as follows:

<u>Investment type</u>	<u>Fair value</u>	<u>Rating</u>	<u>Rating organization</u>
U.S. government and agency securities:			
Federal Home Loan Bank	\$ 2,183,980	AAA	S&P
Federal National Mortgage Association	1,350,469	AAA	S&P
Treasury notes	1,011,299	AAA	S&P
Federal Home Loan Mortgage Corporation	373,137	AAA	S&P
Federal Farm Credit Bank	197,282	AAA	S&P
Government National Mortgage Association pool	365		not rated
	<u>\$ 5,116,532</u>		

Concentration of credit risk. State statutes and the City's investment policy place no limitations on the amount that can be invested in any one issuer. Investments in any one issuer (other than U.S. Treasury securities) that represent 5% or more of the City's total investment are as follows:

<u>Issuer</u>	<u>Fair value</u>	<u>Percentage</u>
U.S. government agencies:		
Federal Home Loan Bank	2,183,980	43%
Federal National Mortgage Association	1,350,469	26%
Federal Home Loan Mortgage Corporation	373,137	7%

City of Allegan
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 4 - RECEIVABLES:

At June 30, 2006, the City's receivables are as follows:

	<i>Property taxes</i>	<i>Accounts</i>	<i>Inter- govern- mental</i>	<i>Totals</i>
Governmental funds:				
General Fund	\$ 4,922	\$ 29,539	\$ 232,837	\$ 267,298
Capital Projects Fund	-	-	333,736	333,736
Nonmajor governmental funds	-	6,210	78,277	84,487
Total governmental funds	<u>\$ 4,922</u>	<u>\$ 35,749</u>	<u>\$ 644,850</u>	<u>\$ 685,521</u>
Proprietary funds:				
Sewer Fund	\$ -	\$ 164,041	\$ -	\$ 164,041
Water Fund	-	212,186	-	212,186
Total proprietary funds	<u>\$ -</u>	<u>\$ 376,227</u>	<u>\$ -</u>	<u>\$ 376,227</u>

All receivables are due within one year and are considered fully collectible.

City of Allegan
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 5 - CAPITAL ASSETS:

Capital asset activity for the year ended June 30, 2006, was as follows:

	<u>Beginning balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending balance</u>
Governmental activities:				
Capital assets not being depreciated - land	\$ 931,710	\$ -	\$ -	\$ 931,710
Capital assets being depreciated:				
Streets	730,352	2,469,199	-	3,199,551
Land improvements	4,709,373	394,899	-	5,104,272
Buildings and improvements	2,913,342	-	-	2,913,342
Furniture, equipment, and books	1,579,903	98,240	(41,116)	1,637,027
Vehicles	1,473,872	53,134	-	1,527,006
Subtotal	11,406,842	3,015,472	(41,116)	14,381,198
Less accumulated depreciation for:				
Streets	(3,043)	(46,806)	-	(49,849)
Land improvements	(749,525)	(131,128)	-	(880,653)
Buildings and improvements	(1,061,261)	(66,509)	-	(1,127,770)
Furniture, equipment, and books	(935,557)	(141,164)	41,116	(1,035,605)
Vehicles	(927,547)	(86,484)	-	(1,014,031)
Subtotal	(3,676,933)	(472,091)	41,116	(4,107,908)
Total capital assets being depreciated, net	7,729,909	2,543,381	-	10,273,290
Governmental activities capital assets, net	\$ 8,661,619	\$ 2,543,381	\$ -	\$ 11,205,000

City of Allegan
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 5 - CAPITAL ASSETS (Continued):

	<i><u>Beginning balance</u></i>	<i><u>Increases</u></i>	<i><u>Decreases</u></i>	<i><u>Ending balance</u></i>
Business-type activities:				
Capital assets not being depreciated - land	\$ 40,585	\$ -	\$ -	\$ 40,585
Capital assets being depreciated:				
Sewer system	11,247,335	857,681	-	12,105,016
Water system	6,305,378	1,346,643	-	7,652,021
Subtotal	17,552,713	2,204,324	-	19,757,037
Less accumulated depreciation for:				
Sewer system	(4,310,296)	(236,260)	-	(4,546,556)
Water system	(2,392,409)	(137,842)	-	(2,530,251)
Subtotal	(6,702,705)	(374,102)	-	(7,076,807)
Total capital assets being depreciated, net	10,850,008	1,830,222	-	12,680,230
Business-type activities capital assets, net	\$ 10,890,593	\$ 1,830,222	\$ -	\$ 12,720,815

Depreciation expense was charged to the City's functions as follows:

Governmental activities:	
General government	\$ 29,881
Public safety	76,256
Public works	170,904
Culture and recreation	94,669
Depreciation on internal service fund assets	100,381
Total governmental activities	\$ 472,091

City of Allegan
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 6 - PAYABLES:

At June 30, 2006, the payables of the City's funds are as follows:

<u>Fund</u>	<u>Accounts</u>	<u>Payroll</u>	<u>Interest</u>	<u>Totals</u>
Governmental funds:				
General	\$ 60,464	\$ 30,610	\$ -	\$ 91,074
Capital projects	409,847	-	-	409,847
Nonmajor governmental	<u>14,763</u>	<u>6,042</u>	<u>-</u>	<u>20,805</u>
Totals	<u>\$ 485,074</u>	<u>\$ 36,652</u>	<u>\$ -</u>	<u>\$ 521,726</u>
Proprietary funds:				
Sewer	\$ 32,629	\$ 12,637	\$ 15,100	\$ 60,366
Water	<u>14,027</u>	<u>24,860</u>	<u>31,300</u>	<u>70,187</u>
Totals	<u>\$ 46,656</u>	<u>\$ 37,497</u>	<u>\$ 46,400</u>	<u>\$ 130,553</u>

NOTE 7 - INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS:

At June 30, 2006, the composition of interfund balances is as follows:

	<u>Receivable</u>	<u>Fund</u>	<u>Payable</u>
General	\$ 44,553	Capital Asset Improvement	
Capital Reserve Sinking	<u>91,950</u>	Improvement Sinking	\$ 136,503
	136,503		
Cemetery Perpetual Care	<u>43,379</u>	General	<u>43,379</u>
Total	<u>\$ 179,882</u>	Total	<u>\$ 179,882</u>

The amount payable by the Capital Asset Sinking Fund represents distributable amounts of the fund's realized investment earnings for the fiscal year ended June 30, 2006. The distributions are made pursuant to a trust agreement.

The amount payable by the General Fund to the Cemetery Perpetual Care Fund represents a loan to finance the cost of improvements to the City cemetery in prior years; \$36,150 of the balance is not scheduled to be collected in the subsequent year.

City of Allegan
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 7 - INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS (Continued):

<u>Fund</u>	<u>Transfers in</u>	<u>Fund</u>	<u>Transfers out</u>
General	\$ 44,553		
Nonmajor governmental	<u>44,553</u>		
	89,106	Capital Asset Improvement Sinking	\$ <u>89,106</u>
General	<u>50,000</u>	Capital Asset Improvement Sinking	<u>50,000</u>
Nonmajor governmental	<u>58,745</u>	General	<u>58,745</u>
Capital Projects	<u>413,850</u>	General	333,850
		Capital Asset Improvement Sinking	40,000
		Nonmajor governmental	<u>40,000</u>
			<u>413,850</u>
Total	\$ <u>611,701</u>	Total	\$ <u>611,701</u>

The transfers out of the Capital Asset Improvement Sinking Fund, in the amount of \$89,106, represent distributions of the fund's realized investment earnings for the fiscal year ended June 30, 2006. The distributions are made pursuant to a trust agreement.

The transfer out of the Capital Asset Improvement Sinking Fund to the General Fund, in the amount of \$50,000, represents financing of capital improvements accounted for in the General Fund.

The transfers out of the General Fund represent unrestricted revenues collected in the General Fund to finance programs accounted for in other funds in accordance with budgetary authorizations.

The transfers to the Capital Projects Fund represent unrestricted revenues collected in the other funds that were used to finance various capital projects in accordance with budgetary authorizations.

City of Allegan
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 8 - LONG-TERM OBLIGATIONS:

At June 30, 2006, long-term obligations, other than compensated absences, are comprised of the following individual issues:

Primary government:

Governmental activities:

Bonds and notes:

\$1,373,796 1998 Michigan Economic Development Corporation note - payable in quarterly installments of \$15,575 bearing 0% interest through December 2012	\$ 436,112
\$3,000,000 1998 General obligation limited tax improvement bonds - payable in annual installments ranging from \$145,000 to \$340,000, plus interest at 4.25% to 4.90%; final payment due November 2012	2,100,000
\$607,000 1999 Installment purchase agreement note - payable in annual installments ranging from \$49,573 to \$88,283, plus interest at 4.85%; final payment due August 2010	312,143
\$360,000 2004 USDA airport revenue bonds - payable in annual installments ranging from \$7,000 to \$21,000, plus interest at 4.25%; final payment due July 2033	339,000
\$3,075,000 2004 Capital improvement bonds - payable in annual installments ranging from \$100,000 to \$127,000, plus interest at 2.00% to 5.25%; final payment due May 2019	<u>2,885,000</u>
Total bonds and notes	<u>\$ 6,072,255</u>

Business-type activities:

Bonds:

\$850,000 1996 Water supply system revenue bonds - payable in annual installments ranging from \$65,000 to \$90,000, plus interest at 4.90% to 5.90%; final payment due May 2011	\$ 400,000
\$650,000 2001 Water supply system revenue bonds - payable in annual installments ranging from \$35,000 to \$60,000, plus interest at 3.50% to 5.00%; final payment due May 2016	485,000
\$3,825,000 2004 Capital improvement bonds - payable in annual installments ranging from \$155,000 to \$223,000, plus interest at 2.00% to 5.25%; final payment due May 2029	<u>3,545,000</u>
Total business-type activities long-term obligations	<u>\$ 4,430,000</u>

Component unit - Downtown Development Authority:

\$300,000 2004 Capital improvement bonds - payable in annual installments ranging from \$15,000 to \$25,000, plus interest at 2.00% to 5.25%; final payment due May 2019	<u>\$ 270,000</u>
--	-------------------

City of Allegan
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 8 - LONG-TERM OBLIGATIONS (Continued):

Long-term obligation activity for the year ended June 30, 2006, was as follows:

	<u>Beginning balance</u>	<u>Reallocation</u>	<u>Increases</u>	<u>Reductions</u>	<u>Ending balance</u>	<u>Amounts due within one year</u>
Primary government:						
Governmental activities:						
MEDC loan	\$ 498,414	\$ -	\$ -	\$ (62,302)	\$ 436,112	\$ 62,302
1998 General obligation bonds	2,270,000	-	-	(170,000)	2,100,000	260,000
1999 Installment purchase note	361,385	-	-	(49,242)	312,143	51,977
2004 USDA revenue bonds	346,000	-	-	(7,000)	339,000	7,000
2004 Capital improvement bond	<u>1,625,000</u>	<u>1,350,000</u>	<u>-</u>	<u>(90,000)</u>	<u>2,885,000</u>	<u>107,000</u>
Total bonds and notes	5,100,799	1,350,000	-	(378,544)	6,072,255	488,279
Compensated absences	<u>82,936</u>	<u>-</u>	<u>238,251</u>	<u>(204,315)</u>	<u>116,872</u>	<u>-</u>
Total governmental activities	<u>\$ 5,183,735</u>	<u>\$ 1,350,000</u>	<u>\$ 238,251</u>	<u>\$ (582,859)</u>	<u>\$ 6,189,127</u>	<u>\$ 488,279</u>
Business-type activities:						
1996 Water revenue bonds	\$ 470,000	\$ -	\$ -	\$ (70,000)	\$ 400,000	\$ 75,000
2001 Water revenue bonds	525,000	-	-	(40,000)	485,000	40,000
2004 Capital improvement bond	<u>5,020,000</u>	<u>(1,350,000)</u>	<u>-</u>	<u>(125,000)</u>	<u>3,545,000</u>	<u>108,000</u>
Total business-type activities	<u>\$ 6,015,000</u>	<u>\$ (1,350,000)</u>	<u>\$ -</u>	<u>\$ (235,000)</u>	<u>\$ 4,430,000</u>	<u>\$ 223,000</u>
Component unit:						
2004 Capital improvement bond	<u>\$ 285,000</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (15,000)</u>	<u>\$ 270,000</u>	<u>\$ 15,000</u>

The reallocation relates to the reclassification of prior year bond proceeds from the business-type activities to the governmental activities.

City of Allegan
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 8 - LONG-TERM OBLIGATIONS (Continued):

At June 30, 2006, debt service requirements, excluding compensated absences, were as follows:

<i>Year ended June 30,</i>	<i>Governmental activities</i>		<i>Business-type activities</i>	
	<i>Principal</i>	<i>Interest</i>	<i>Principal</i>	<i>Interest</i>
2007	\$ 488,279	\$ 258,908	\$ 223,000	\$ 221,429
2008	513,800	240,525	225,000	212,940
2009	531,443	220,221	236,000	202,890
2010	550,215	199,258	245,000	191,650
2011	600,916	175,342	258,000	179,664
2012 - 2016	1,552,602	599,079	980,000	746,722
2017 - 2021	742,000	366,078	801,000	515,563
2022 - 2026	558,000	211,128	864,000	307,427
2027 - 2031	481,000	18,883	598,000	108,798
2032 - 2036	54,000	3,542	-	-
Totals	<u>\$ 6,072,255</u>	<u>\$ 2,292,964</u>	<u>\$ 4,430,000</u>	<u>\$ 2,687,083</u>

All debt is secured by the full faith and credit of the City.

Conduit debt obligation:

The City, through its Hospital Finance Authority, has issued Hospital Revenue and Refunding Bonds to provide financial assistance to a nonprofit hospital for the acquisition and construction of hospital facilities deemed to be in the public interest. The bonds are secured by the property financed and are payable solely by the nonprofit hospital. Neither the City, the State of Michigan, nor any political subdivision thereof is obligated in any manner for repayment of the bonds. Accordingly, the bonds are not reported as liabilities in the accompanying financial statements. At June 30, 2006, Allegan General Hospital Revenue and Refunding Bonds outstanding aggregated \$8,030,000.

NOTE 9 - DEFINED BENEFIT PENSION PLAN:

Plan description:

The City's defined benefit pension plan provides retirement, disability, and death benefits to plan members and beneficiaries. The City's defined benefit pension plan is affiliated with the Municipal Employees' Retirement System of Michigan (MERS), an agent, multiple-employer, public employee retirement system that acts as a common investment and administrative agent for municipalities in Michigan. Public Act 220 of 1996 of the State of Michigan assigns the authority to establish and amend the benefit provisions to the City of Allegan. The MERS issues a publicly-available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to Municipal Employees' Retirement System of Michigan, 447 N. Canal, Lansing, Michigan 48917, or by calling 1-800-767-6377.

City of Allegan
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 9 - DEFINED BENEFIT PENSION PLAN (Continued):

Funding policy:

Contribution rates for each participating employer and its covered employees are established and may be amended by each participating unit. The contribution rates are determined based on the benefit structure established by each employer. Covered employees are not required to contribute to the plan. Participating employers are required to contribute amounts necessary to finance the coverage of their employees through periodic contributions at actuarially-determined rates. Administrative costs of the plan are financed through investment earnings.

Annual pension cost:

For the year ended June 30, 2006, the City's annual pension cost of \$141,554 for its defined benefit pension plan was equal to the required and actual contributions. The required contribution was determined as part of the December 31, 2004, actuarial valuation using the entry age actuarial cost method. The actuarial assumptions included a) 8% investment rate of return, net of administrative expenses, b) projected salary increases of 4.5% per year, and c) no cost of living adjustments. The actuarial value of the plan's assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a five-year period. The unfunded actuarial accrued liability is being amortized over a closed period of 32 years as a level percentage of payroll.

Three-year trend information is as follows:

<i><u>Fiscal year ending</u></i>	<i><u>Annual pension cost (APC)</u></i>	<i><u>Percentage of APC contributed</u></i>	<i><u>Net pension obligation</u></i>
06/30/04	\$110,823	100%	\$ -
06/30/05	118,918	100%	-
06/30/06	141,554	100%	-

NOTE 10 - DEFINED CONTRIBUTION PENSION PLAN:

On July 1, 1985, the City adopted a defined contribution pension plan, specifically referred to as the City of Allegan Employees' Money Purchase Plan. In a defined contribution plan, benefits depend solely on amounts contributed to the plan, plus investment earnings. Employees are eligible to participate after completing one thousand hours of service and attaining the age of eighteen. The Plan requires that the City contribute, on behalf of each covered employee, the greater of 10% of their taxable wage base or \$1,500. The City's contributions for each employee (and interest allocated to the employee's account) are fully vested after five years of continuous service. City contributions for, and interest forfeited by, employees who leave employment before five years of service are used to reduce the City's current period contribution requirements. The City is not responsible for investment management of plan assets. Michigan state statutes assign the authority to establish and amend benefit provisions to the Allegan City Council.

The City made the required contributions of \$177,178 for the year ended June 30, 2006.

City of Allegan
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 11 - OTHER POST-RETIREMENT BENEFITS:

The City provides post-retirement health care benefits to employees and their beneficiaries who retired on or before April 1, 1990, as required by a local ordinance. The retirees are required to make monthly payments to the Insurance Fund to reimburse the City for the full cost of coverage for these benefits. At June 30, 2006, three retirees participate in continuance of coverage. Expenses for post-retirement health care benefits are recognized as retirees' premium costs as incurred. For the year ended June 30, 2006, the City recognized expenses of \$0, which was net of \$24,210 of retiree contributions.

NOTE 12 - INTERNAL TRUST ARRANGEMENTS:

a) Capital Asset Improvement Sinking Fund:

In 1967, the City sold its electric utility facilities and placed the disposition proceeds in a trust fund to be used to purchase capital additions, improvements, or betterments, as permissible by law. Net realized investment income is to be distributed as follows:

- One fifth (1/5) retained by the fund;
- Two fifths (2/5) transferred to General Fund; and
- Two fifths (2/5) transferred to another trust fund (Capital Reserve Sinking Fund)

b) Capital Reserve Sinking Fund:

The City established a trust fund to account for certain investment income of the Capital Asset Improvement Sinking Fund (see above). Net assets of this fund shall not exceed \$1,000,000, which may be used to purchase capital additions, improvements, or betterments, as approved by a three fifths (3/5) majority vote of qualified voters of the City. The fund currently has net assets of \$227,868 as of June 30, 2006.

NOTE 13 - ECONOMIC DEPENDENCY:

For the year ended June 30, 2006, the City received approximately 45% of its property tax revenues and 33% of its utility revenues from one industrial property owner.

NOTE 14 - RISK MANAGEMENT:

The City is exposed to various risks of loss related to general liability, property and casualty, workers' compensation, and employee medical claims. The risks of loss arising from general liability up to \$5,000,000, property losses, workers' compensation, and employee medical costs are managed through purchased commercial insurance. For all risks of loss, there have been no significant reductions in insurance coverage from coverage provided in prior years. Also, in the past three years, settlements did not exceed insurance coverage.

NOTE 15 - CONSTRUCTION CODE ACT:

A summary of construction code enforcement transactions for the year ended June 30, 2006, is as follows:

Revenues	\$ 16,014
Expenses	<u>194,210</u>
Deficiency of revenues over expenses	<u>\$ (178,196)</u>

City of Allegan
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 16 - CONSTRUCTION COMMITMENTS:

At June 30, 2006, the City had authorized contracts totaling \$7,200,000 for infrastructure improvements including sewer and water line replacements and street resurfacing. The improvements are being funded by capital improvement bonds issued in 2004 in the amount of \$7,200,000. Costs incurred through June 30, 2006, were \$5,900,000, leaving a commitment of \$1,300,000.

REQUIRED SUPPLEMENTARY INFORMATION

City of Allegan
BUDGETARY COMPARISON SCHEDULE - General Fund
Year ended June 30, 2006

	<u>Original Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	<u>Variance favorable (unfavorable)</u>
REVENUES				
Property taxes	\$ 2,734,300	\$ 2,734,300	\$ 2,715,767	\$ (18,533)
Licenses and permits	30,000	31,800	16,014	(15,786)
Federal grants	63,115	63,115	219,767	156,652
State grants	540,400	540,400	529,625	(10,775)
Contributions from local units	60,000	60,000	91,284	31,284
Charges for services	67,140	67,140	70,979	3,839
Fines and forfeitures	30,455	30,455	30,843	388
Investment return and rentals	149,250	149,250	219,645	70,395
Other	44,650	44,650	62,435	17,785
Total revenues	<u>3,719,310</u>	<u>3,721,110</u>	<u>3,956,359</u>	<u>235,249</u>
EXPENDITURES				
Legislative	18,150	18,150	15,647	2,503
General government	1,028,937	1,061,637	942,277	119,360
Public safety	1,514,876	1,570,676	1,520,142	50,534
Public works	217,610	220,610	179,091	41,519
Community and economic development	35,000	35,000	22,840	12,160
Culture and recreation	436,291	461,291	353,407	107,884
Capital outlay	142,250	162,650	127,261	35,389
Debt service:				
Principal	76,600	76,300	76,242	58
Interest	82,500	90,800	90,739	61
Total expenditures	<u>3,552,214</u>	<u>3,697,114</u>	<u>3,327,646</u>	<u>369,468</u>
EXCESS OF REVENUES OVER EXPENDITURES	<u>167,096</u>	<u>23,996</u>	<u>628,713</u>	<u>604,717</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	122,000	122,000	94,553	(27,447)
Transfers out	(392,295)	(392,295)	(392,295)	-
Total financing sources (uses)	<u>(270,295)</u>	<u>(270,295)</u>	<u>(297,742)</u>	<u>(27,447)</u>
NET CHANGE IN FUND BALANCES	(103,199)	(246,299)	330,971	577,270
FUND BALANCES - BEGINNING	<u>1,060,816</u>	<u>1,060,816</u>	<u>1,060,816</u>	<u>-</u>
FUND BALANCES - ENDING	<u>\$ 957,617</u>	<u>\$ 814,517</u>	<u>\$ 1,391,787</u>	<u>\$ 577,270</u>

City of Allegan
BUDGETARY COMPARISON SCHEDULE - Capital Projects Fund
Year ended June 30, 2006

	<u>Original Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	<u>Variance favorable (unfavorable)</u>
REVENUES				
Federal grants	\$ 300,000	\$ 300,000	\$ 333,736	\$ 33,736
State grants	-	-	281,250	281,250
Contributions from local units	-	-	40,247	40,247
Contribution from component unit	155,000	155,000	20,000	(135,000)
Investment return	25,000	25,000	92,586	67,586
Total revenues	<u>480,000</u>	<u>480,000</u>	<u>767,819</u>	<u>287,819</u>
EXPENDITURES				
Public works	2,946,850	2,946,850	2,882,916	63,934
Debt service:				
Principal	232,400	232,400	232,302	98
Interest	102,150	102,150	101,107	1,043
Total expenditures	<u>3,281,400</u>	<u>3,281,400</u>	<u>3,216,325</u>	<u>65,075</u>
DEFICIENCY OF REVENUES OVER EXPENDITURES	<u>(2,801,400)</u>	<u>(2,801,400)</u>	<u>(2,448,506)</u>	<u>352,894</u>
OTHER FINANCING SOURCES				
Reallocation of bond proceeds	1,350,000	1,350,000	1,350,000	-
Transfers in	378,550	378,550	413,550	35,000
Total other financing sources	<u>1,728,550</u>	<u>1,728,550</u>	<u>1,763,550</u>	<u>35,000</u>
NET CHANGE IN FUND BALANCES	<u>(1,072,850)</u>	<u>(1,072,850)</u>	<u>(684,956)</u>	<u>387,894</u>
FUND BALANCES - BEGINNING	<u>1,104,525</u>	<u>1,104,525</u>	<u>1,104,525</u>	<u>-</u>
FUND BALANCES - ENDING	<u>\$ 31,675</u>	<u>\$ 31,675</u>	<u>\$ 419,569</u>	<u>\$ 387,894</u>

City of Allegan**BUDGETARY COMPARISON SCHEDULE - Capital Asset Improvement Sinking Fund**

Year ended June 30, 2006

	<u>Original Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	<u>Variance favorable (unfavorable)</u>
REVENUES				
Investment return	\$ 185,000	\$ 185,000	\$ 58,551	\$ (126,449)
OTHER FINANCING USES				
Transfers out	<u>(194,000)</u>	<u>(234,000)</u>	<u>(179,106)</u>	<u>54,894</u>
NET CHANGE IN FUND BALANCES	(9,000)	(49,000)	(120,555)	(71,555)
FUND BALANCES - BEGINNING	<u>3,073,426</u>	<u>3,073,426</u>	<u>3,073,426</u>	<u>-</u>
FUND BALANCES - ENDING	<u>\$ 3,064,426</u>	<u>\$ 3,024,426</u>	<u>\$ 2,952,871</u>	<u>\$ (71,555)</u>

City of Allegan
SCHEDULE OF FUNDING PROGRESS
Employee Retirement System
(Municipal Employees' Retirement System of Michigan)

<i>Actuarial valuation date <u>December 31</u></i>	<i>Actuarial value of assets <u>(a)</u></i>	<i>Actuarial accrued liability (AAL) entry age <u>(b)</u></i>	<i>Unfunded AAL (UAAL) <u>(b-a)</u></i>	<i>Funded ratio <u>(a/b)</u></i>	<i>Covered payroll <u>(c)</u></i>	<i>UAAL as a percentage of covered payroll <u>((b-a)/c)</u></i>
1997	\$ 479,621	\$1,326,960	\$ 847,339	36%	\$395,965	214%
1998	569,429	1,372,114	802,685	42%	436,484	184%
1999	700,302	1,357,238	656,936	52%	516,070	127%
2000	834,553	1,784,575	950,022	47%	530,507	179%
2001	970,738	2,065,680	1,094,942	47%	547,012	200%
2002	1,077,201	2,354,012	1,276,811	46%	612,731	208%
2003	1,288,152	2,605,583	1,317,431	49%	535,918	246%
2004	1,429,189	2,770,066	1,340,877	52%	580,215	231%
2005	1,595,582	3,025,643	1,430,061	53%	590,820	242%

SUPPLEMENTARY INFORMATION

City of Allegan
COMBINING BALANCE SHEET - nonmajor governmental funds
June 30, 2006

	<u>Major Street</u>	<u>Local Street</u>	<u>Wellness Center</u>	<u>Library</u>
ASSETS				
Cash	\$ 68,772	\$ 68,421	\$ 13,573	\$ 77,001
Investments	168,579	-	-	147,559
Receivables	46,431	15,654	1,853	17,229
Due from other funds	-	-	-	-
Total assets	<u>\$ 283,782</u>	<u>\$ 84,075</u>	<u>\$ 15,426</u>	<u>\$ 241,789</u>
LIABILITIES AND FUND BALANCES				
Liabilities:				
Payables	<u>\$ 1,326</u>	<u>\$ 367</u>	<u>\$ 3,167</u>	<u>\$ 9,399</u>
Fund balances:				
Reserved:				
Donor restrictions for Library expenditures	-	-	-	29,890
Cemetery perpetual care	-	-	-	-
Unreserved:				
Designated	-	-	-	57,352
Undesignated	<u>282,456</u>	<u>83,708</u>	<u>12,259</u>	<u>145,148</u>
Total fund balances	<u>282,456</u>	<u>83,708</u>	<u>12,259</u>	<u>232,390</u>
Total liabilities and fund balances	<u>\$ 283,782</u>	<u>\$ 84,075</u>	<u>\$ 15,426</u>	<u>\$ 241,789</u>

<u>Revolving Loan</u>	<u>Economic Development</u>	<u>Theatre</u>	<u>Cemetery Perpetual Care</u>	<u>Auditorium and Library</u>	<u>Capital Reserve Sinking</u>	<u>Total nonmajor governmental funds</u>
\$ 36,569	\$ -	\$ 9,697	\$ 118,654	\$ 21,574	\$ 12,015	\$ 426,276
-	18,404	-	365	-	123,903	458,810
2,192	-	1,128	-	-	-	84,487
-	-	-	43,379	-	91,950	135,329
<u>\$ 38,761</u>	<u>\$ 18,404</u>	<u>\$ 10,825</u>	<u>\$ 162,398</u>	<u>\$ 21,574</u>	<u>\$ 227,868</u>	<u>\$ 1,104,902</u>
<u>\$ -</u>	<u>\$ 13</u>	<u>\$ 6,533</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 20,805</u>
-	-	-	-	-	-	29,890
-	-	-	162,398	-	-	162,398
-	-	-	-	-	-	57,352
38,761	18,391	4,292	-	21,574	227,868	834,457
38,761	18,391	4,292	162,398	21,574	227,868	1,084,097
<u>\$ 38,761</u>	<u>\$ 18,404</u>	<u>\$ 10,825</u>	<u>\$ 162,398</u>	<u>\$ 21,574</u>	<u>\$ 227,868</u>	<u>\$ 1,104,902</u>

City of Allegan**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES - nonmajor governmental funds**

Year ended June 30, 2006

	<u>Major Street</u>	<u>Local Street</u>	<u>Wellness Center</u>	<u>Library</u>
REVENUES				
Property taxes	\$ -	\$ -	\$ -	\$ 226,126
State grants	254,420	109,659	-	19,457
Contributions from local units	60,000	60,000	-	31,000
Charges for services	29,108	-	48,219	-
Fines and forfeitures	-	-	-	130,488
Investment return and rentals	-	-	-	3,409
Other	-	2,814	161	14,706
	<u>343,528</u>	<u>172,473</u>	<u>48,380</u>	<u>425,186</u>
Total revenues				
	<u>343,528</u>	<u>172,473</u>	<u>48,380</u>	<u>425,186</u>
EXPENDITURES				
General government	-	-	-	-
Public works	264,930	146,342	-	-
Community and economic development	-	-	-	-
Culture and recreation	-	-	88,110	396,606
Capital outlay	-	-	-	-
Debt service - principal	30,000	40,000	-	-
	<u>294,930</u>	<u>186,342</u>	<u>88,110</u>	<u>396,606</u>
Total expenditures				
	<u>294,930</u>	<u>186,342</u>	<u>88,110</u>	<u>396,606</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>48,598</u>	<u>(13,869)</u>	<u>(39,730)</u>	<u>28,580</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	-	-	51,260	-
Transfers out	-	-	-	-
	<u>-</u>	<u>-</u>	<u>51,260</u>	<u>-</u>
Total other financing sources (uses)				
	<u>-</u>	<u>-</u>	<u>51,260</u>	<u>-</u>
NET CHANGE IN FUND BALANCES	48,598	(13,869)	11,530	28,580
FUND BALANCES - BEGINNING	<u>233,858</u>	<u>97,577</u>	<u>729</u>	<u>203,810</u>
FUND BALANCES - ENDING	<u>\$ 282,456</u>	<u>\$ 83,708</u>	<u>\$ 12,259</u>	<u>\$ 232,390</u>

<u>Revolving Loan</u>	<u>Economic Development</u>	<u>Theatre</u>	<u>Cemetery Perpetual Care</u>	<u>Auditorium and Library</u>	<u>Capital Reserve Sinking</u>	<u>Total nonmajor governmental funds</u>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 226,126
-	-	-	-	-	-	383,536
-	-	-	-	-	-	151,000
-	-	120,098	-	-	-	197,425
-	-	-	-	-	-	130,488
-	(78)	3,156	14	431	3,822	10,754
<u>225</u>	<u>-</u>	<u>6,008</u>	<u>248</u>	<u>-</u>	<u>-</u>	<u>24,162</u>
<u>225</u>	<u>(78)</u>	<u>129,262</u>	<u>262</u>	<u>431</u>	<u>3,822</u>	<u>1,123,491</u>
750	-	-	9,600	-	-	10,350
-	-	-	-	-	-	411,272
-	1,406	-	-	-	-	1,406
-	-	129,990	-	-	-	614,706
-	-	5,451	-	-	-	5,451
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>70,000</u>
<u>750</u>	<u>1,406</u>	<u>135,441</u>	<u>9,600</u>	<u>-</u>	<u>-</u>	<u>1,113,185</u>
<u>(525)</u>	<u>(1,484)</u>	<u>(6,179)</u>	<u>(9,338)</u>	<u>431</u>	<u>3,822</u>	<u>10,306</u>
-	-	7,485	-	-	44,553	103,298
<u>(40,000)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(40,000)</u>
<u>(40,000)</u>	<u>-</u>	<u>7,485</u>	<u>-</u>	<u>-</u>	<u>44,553</u>	<u>63,298</u>
<u>(40,525)</u>	<u>(1,484)</u>	<u>1,306</u>	<u>(9,338)</u>	<u>431</u>	<u>48,375</u>	<u>73,604</u>
<u>79,286</u>	<u>19,875</u>	<u>2,986</u>	<u>171,736</u>	<u>21,143</u>	<u>179,493</u>	<u>1,010,493</u>
<u>\$ 38,761</u>	<u>\$ 18,391</u>	<u>\$ 4,292</u>	<u>\$ 162,398</u>	<u>\$ 21,574</u>	<u>\$ 227,868</u>	<u>\$ 1,084,097</u>

City of Allegan**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND****BALANCE - BUDGET AND ACTUAL - General Fund**

Year ended June 30, 2006

	<u>Amended Budget</u>	<u>Actual</u>	<u>Variance favorable (unfavorable)</u>
REVENUES			
Property taxes	\$ 2,734,300	\$ 2,715,767	\$ (18,533)
Licenses and permits	31,800	16,014	(15,786)
Federal grants	63,115	219,767	156,652
State grants	540,400	529,625	(10,775)
Contributions from local units	60,000	91,284	31,284
Charges for services	67,140	70,979	3,839
Fines and forfeitures	30,455	30,843	388
Investment return and rentals	149,250	219,645	70,395
Other	<u>44,650</u>	<u>62,435</u>	<u>17,785</u>
Total revenues	<u>3,721,110</u>	<u>3,956,359</u>	<u>235,249</u>
EXPENDITURES			
Legislative - City Council	<u>18,150</u>	<u>15,647</u>	<u>2,503</u>
General government:			
Manager	203,921	170,977	32,944
Elections	11,850	4,867	6,983
Assessor	79,817	78,004	1,813
Legal fees	50,000	35,706	14,294
Treasurer	181,807	154,135	27,672
City hall	65,130	46,658	18,472
Building and grounds	386,433	385,999	434
Cemetery	76,179	64,862	11,317
Other administration	<u>6,500</u>	<u>1,069</u>	<u>5,431</u>
Total general government	<u>1,061,637</u>	<u>942,277</u>	<u>119,360</u>
Public safety:			
Police department	1,181,692	1,103,306	78,386
Fire department	190,128	222,626	(32,498)
Inspections department	<u>198,856</u>	<u>194,210</u>	<u>4,646</u>
Total public safety	<u>1,570,676</u>	<u>1,520,142</u>	<u>50,534</u>

City of Allegan**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND****BALANCE - BUDGET AND ACTUAL - General Fund (Continued)**

Year ended June 30, 2006

	<u>Amended Budget</u>	<u>Actual</u>	<u>Variance favorable (unfavorable)</u>
EXPENDITURES (Continued)			
Public works:			
Street lighting	\$ 68,000	\$ 67,169	\$ 831
Airport	<u>152,610</u>	<u>111,922</u>	<u>40,688</u>
Total public works	<u>220,610</u>	<u>179,091</u>	<u>41,519</u>
Community and economic development	<u>35,000</u>	<u>22,840</u>	<u>12,160</u>
Culture and recreation:			
Griswold Auditorium	203,103	189,325	13,778
Parks and recreation	216,223	162,452	53,771
Historic Commission	<u>41,965</u>	<u>1,630</u>	<u>40,335</u>
Total culture and recreation	<u>461,291</u>	<u>353,407</u>	<u>107,884</u>
Capital outlay	<u>162,650</u>	<u>127,261</u>	<u>35,389</u>
Debt service - principal	<u>76,300</u>	<u>76,242</u>	<u>58</u>
Debt service - interest	<u>90,800</u>	<u>90,739</u>	<u>61</u>
Total expenditures	<u>3,697,114</u>	<u>3,327,646</u>	<u>369,468</u>
EXCESS OF REVENUES OVER EXPENDITURES	<u>23,996</u>	<u>628,713</u>	<u>604,717</u>
OTHER FINANCING SOURCES (USES)			
Transfers in	122,000	94,553	(27,447)
Transfers out	<u>(392,295)</u>	<u>(392,295)</u>	<u>-</u>
Total other financing uses	<u>(270,295)</u>	<u>(297,742)</u>	<u>(27,447)</u>
NET CHANGE IN FUND BALANCES	<u>(246,299)</u>	<u>330,971</u>	<u>577,270</u>
FUND BALANCES - BEGINNING	<u>1,060,816</u>	<u>1,060,816</u>	<u>-</u>
FUND BALANCES - ENDING	<u>\$ 814,517</u>	<u>\$ 1,391,787</u>	<u>\$ 577,270</u>

City of Allegan**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND
BALANCES - BUDGET AND ACTUAL - Major Street Fund**

Year ended June 30, 2006

	<u>Amended Budget</u>	<u>Actual</u>	<u>Variance favorable (unfavorable)</u>
REVENUES			
State grants	\$ 224,500	\$ 254,420	\$ 29,920
Contribution from local unit	30,000	60,000	30,000
Charges for services	<u>31,000</u>	<u>29,108</u>	<u>(1,892)</u>
Total revenues	<u>285,500</u>	<u>343,528</u>	<u>58,028</u>
EXPENDITURES			
Public works:			
Street preservation	186,790	170,089	16,701
Bridge maintenance	4,418	2,490	1,928
Traffic services	15,995	15,540	455
Winter maintenance	57,595	56,078	1,517
Surface maintenance	30,700	14,978	15,722
Traffic signals	<u>-</u>	<u>5,755</u>	<u>(5,755)</u>
Total public works	295,498	264,930	30,568
Debt service - principal	<u>20,000</u>	<u>30,000</u>	<u>(10,000)</u>
Total expenditures	<u>315,498</u>	<u>294,930</u>	<u>20,568</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(29,998)	48,598	78,596
FUND BALANCES - BEGINNING	<u>233,858</u>	<u>233,858</u>	<u>-</u>
FUND BALANCES - ENDING	<u>\$ 203,860</u>	<u>\$ 282,456</u>	<u>\$ 78,596</u>

City of Allegan**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND
BALANCES - BUDGET AND ACTUAL - Local Street Fund**

Year ended June 30, 2006

	<u>Amended Budget</u>	<u>Actual</u>	<u>Variance favorable (unfavorable)</u>
REVENUES			
State grants	\$ 108,000	\$ 109,659	\$ 1,659
Contribution from local unit	60,000	60,000	-
Other	<u>2,000</u>	<u>2,814</u>	<u>814</u>
Total revenues	<u>170,000</u>	<u>172,473</u>	<u>2,473</u>
EXPENDITURES			
Public works:			
Street preservation	152,680	129,283	23,397
Traffic services	5,355	3,801	1,554
Winter maintenance	<u>24,873</u>	<u>13,258</u>	<u>11,615</u>
Total public works	182,908	146,342	36,566
Debt service - principal	<u>30,000</u>	<u>40,000</u>	<u>(10,000)</u>
Total expenditures	<u>212,908</u>	<u>186,342</u>	<u>26,566</u>
DEFICIENCY OF REVENUES OVER EXPENDITURES	(42,908)	(13,869)	29,039
FUND BALANCES - BEGINNING	<u>97,577</u>	<u>97,577</u>	<u>-</u>
FUND BALANCES - ENDING	<u>\$ 54,669</u>	<u>\$ 83,708</u>	<u>\$ 29,039</u>

City of Allegan**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND
BALANCES - BUDGET AND ACTUAL - Wellness Center Fund**

Year ended June 30, 2006

	<u>Amended Budget</u>	<u>Actual</u>	<u>Variance favorable (unfavorable)</u>
REVENUES			
Charges for services:			
Concession stand sales	\$ 50,000	\$ 34,685	\$ (15,315)
User fees	7,500	13,534	6,034
Other	<u>2,700</u>	<u>161</u>	<u>(2,539)</u>
Total revenues	<u>60,200</u>	<u>48,380</u>	<u>(11,820)</u>
 EXPENDITURES			
Culture and recreation	110,960	88,110	22,850
Capital outlay	<u>500</u>	<u>-</u>	<u>500</u>
Total expenditures	<u>111,460</u>	<u>88,110</u>	<u>23,350</u>
 DEFICIENCY OF REVENUES OVER EXPENDITURES	(51,260)	(39,730)	11,530
 OTHER FINANCING SOURCES			
Transfer in - General Fund	<u>51,260</u>	<u>51,260</u>	<u>-</u>
 EXCESS OF REVENUES AND OTHER SOURCES OVER EXPENDITURES	-	11,530	11,530
 FUND BALANCES - BEGINNING	<u>729</u>	<u>729</u>	<u>-</u>
 FUND BALANCES - ENDING	<u>\$ 729</u>	<u>\$ 12,259</u>	<u>\$ 11,530</u>

City of Allegan**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND
BALANCES - BUDGET AND ACTUAL - Library Fund**

Year ended June 30, 2006

	<u>Amended Budget</u>	<u>Actual</u>	<u>Variance favorable (unfavorable)</u>
REVENUES			
Property taxes	\$ 217,450	\$ 226,126	\$ 8,676
State grants	14,450	19,457	5,007
Contributions from local units	35,700	31,000	(4,700)
Fines and forfeitures:			
Penal fines	111,000	116,616	5,616
Other	13,000	13,872	872
Investment return	3,400	3,409	9
Other	<u>12,200</u>	<u>14,706</u>	<u>2,506</u>
Total revenues	<u>407,200</u>	<u>425,186</u>	<u>17,986</u>
 EXPENDITURES			
Culture and recreation	395,700	396,606	(906)
Capital outlay	<u>3,000</u>	<u>-</u>	<u>3,000</u>
Total expenditures	<u>398,700</u>	<u>396,606</u>	<u>2,094</u>
 EXCESS OF REVENUES OVER EXPENDITURES	8,500	28,580	20,080
 FUND BALANCES - BEGINNING	<u>203,810</u>	<u>203,810</u>	<u>-</u>
 FUND BALANCES - ENDING	<u>\$ 212,310</u>	<u>\$ 232,390</u>	<u>\$ 20,080</u>

*City of Allegan***STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND
BALANCES - BUDGET AND ACTUAL - *Revolving Loan Fund****Year ended June 30, 2006*

	<u><i>Amended Budget</i></u>	<u><i>Actual</i></u>	<u><i>Variance favorable (unfavorable)</i></u>
REVENUES			
Other - collections on loans	<u>\$ 4,200</u>	<u>\$ 225</u>	<u>\$ (3,975)</u>
EXPENDITURES			
General government	750	750	-
Public works	<u>40,000</u>	<u>-</u>	<u>40,000</u>
Total expenditures	<u>40,750</u>	<u>750</u>	<u>40,000</u>
DEFICIENCY OF REVENUES OVER EXPENDITURES	<u>(36,550)</u>	<u>(525)</u>	<u>36,025</u>
OTHER FINANCING USES			
Transfer out - Capital Projects Fund	<u>(40,000)</u>	<u>(40,000)</u>	<u>-</u>
DEFICIENCY OF REVENUES OVER EXPENDITURES AND OTHER USES	<u>(76,550)</u>	<u>(40,525)</u>	<u>36,025</u>
FUND BALANCES - BEGINNING	<u>79,286</u>	<u>79,286</u>	<u>-</u>
FUND BALANCES - ENDING	<u>\$ 2,736</u>	<u>\$ 38,761</u>	<u>\$ 36,025</u>

City of Allegan

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND
BALANCES - BUDGET AND ACTUAL - *Economic Development Fund***

Year ended June 30, 2006

	<u><i>Amended Budget</i></u>	<u><i>Actual</i></u>	<u><i>Variance favorable (unfavorable)</i></u>
REVENUES			
Investment return	\$ -	\$ (78)	\$ (78)
EXPENDITURES			
Community and economic development	<u>2,150</u>	<u>1,406</u>	<u>744</u>
DEFICIENCY OF REVENUES OVER EXPENDITURES	(2,150)	(1,484)	666
FUND BALANCES - BEGINNING	<u>19,875</u>	<u>19,875</u>	<u>-</u>
FUND BALANCES - ENDING	<u>\$ 17,725</u>	<u>\$ 18,391</u>	<u>\$ 666</u>

City of Allegan**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND
BALANCES - BUDGET AND ACTUAL - Theatre Fund**

Year ended June 30, 2006

	<u>Amended Budget</u>	<u>Actual</u>	<u>Variance favorable (unfavorable)</u>
REVENUES			
Charges for services	\$ 124,750	\$ 120,098	\$ (4,652)
Building rentals	3,000	3,156	156
Other	<u>7,000</u>	<u>6,008</u>	<u>(992)</u>
Total revenues	<u>134,750</u>	<u>129,262</u>	<u>(5,488)</u>
EXPENDITURES			
Culture and recreation	135,235	129,990	5,245
Capital outlay	<u>7,000</u>	<u>5,451</u>	<u>1,549</u>
Total expenditures	<u>142,235</u>	<u>135,441</u>	<u>6,794</u>
DEFICIENCY OF REVENUES OVER EXPENDITURES	(7,485)	(6,179)	1,306
OTHER FINANCING SOURCES			
Transfer in - General Fund	<u>7,485</u>	<u>7,485</u>	<u>-</u>
EXCESS OF REVENUES AND OTHER SOURCES OVER EXPENDITURES	-	1,306	1,306
FUND BALANCES - BEGINNING	<u>2,986</u>	<u>2,986</u>	<u>-</u>
FUND BALANCES - ENDING	<u>\$ 2,986</u>	<u>\$ 4,292</u>	<u>\$ 1,306</u>

City of Allegan**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND
BALANCES - BUDGET AND ACTUAL - Cemetery Perpetual Care Fund**

Year ended June 30, 2006

	<u>Amended Budget</u>	<u>Actual</u>	<u>Variance favorable (unfavorable)</u>
REVENUES			
Investment return	\$ -	\$ 14	\$ 14
Other - contributions	<u>8,231</u>	<u>248</u>	<u>(7,983)</u>
Total revenues	8,231	262	(7,969)
EXPENDITURES			
General government	<u>9,600</u>	<u>9,600</u>	<u>-</u>
DEFICIENCY OF REVENUES OVER EXPENDITURES	(1,369)	(9,338)	(7,969)
FUND BALANCES - BEGINNING	<u>171,736</u>	<u>171,736</u>	<u>-</u>
FUND BALANCES - ENDING	<u>\$ 170,367</u>	<u>\$ 162,398</u>	<u>\$ (7,969)</u>

City of Allegan

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND
BALANCES - BUDGET AND ACTUAL - Auditorium and Library Fund**

Year ended June 30, 2006

	<u><i>Amended Budget</i></u>	<u><i>Actual</i></u>	<u><i>Variance favorable (unfavorable)</i></u>
REVENUES			
Investment return	<u>\$ -</u>	<u>\$ 431</u>	<u>\$ 431</u>
EXCESS OF REVENUES OVER EXPENDITURES	<u>-</u>	<u>431</u>	<u>431</u>
FUND BALANCES - BEGINNING	<u>21,143</u>	<u>21,143</u>	<u>-</u>
FUND BALANCES - ENDING	<u>\$ 21,143</u>	<u>\$ 21,574</u>	<u>\$ 431</u>

City of Allegan

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND
BALANCES - BUDGET AND ACTUAL - Capital Reserve Sinking Fund**

Year ended June 30, 2006

	<u>Amended Budget</u>	<u>Actual</u>	<u>Variance favorable (unfavorable)</u>
REVENUES			
Investment return	\$ 600	\$ 3,822	\$ 3,222
OTHER FINANCING SOURCES			
Transfer in - Capital Asset Improvement Fund	<u>72,000</u>	<u>44,553</u>	<u>(27,447)</u>
EXCESS OF REVENUES AND OTHER SOURCES OVER EXPENDITURES	72,600	48,375	(24,225)
FUND BALANCES - BEGINNING	<u>179,493</u>	<u>179,493</u>	<u>-</u>
FUND BALANCES - ENDING	<u>\$ 252,093</u>	<u>\$ 227,868</u>	<u>\$ (24,225)</u>

City of Allegan**COMBINING STATEMENT OF NET ASSETS - internal service funds**

June 30, 2006

	<u>Motor Vehicle and Equipment</u>	<u>Insurance</u>	<u>Totals</u>
ASSETS			
Current assets:			
Cash	\$ 166,177	\$ 10,036	\$ 176,213
Prepays	<u>-</u>	<u>36,698</u>	<u>36,698</u>
Total current assets	166,177	46,734	212,911
Noncurrent assets:			
Capital assets, net of depreciation	<u>643,757</u>	<u>-</u>	<u>643,757</u>
Total assets	<u>809,934</u>	<u>46,734</u>	<u>856,668</u>
LIABILITIES			
Current liabilities:			
Payables	<u>6,795</u>	<u>-</u>	<u>6,795</u>
NET ASSETS			
Invested in capital assets	643,757	-	643,757
Unrestricted	<u>159,382</u>	<u>46,734</u>	<u>206,116</u>
Total net assets	<u>\$ 803,139</u>	<u>\$ 46,734</u>	<u>\$ 849,873</u>

City of Allegan**COMBINING STATEMENT OF REVENUES, EXPENSES, AND
CHANGES IN NET ASSETS - internal service funds**

Year ended June 30, 2006

	<u>Motor Vehicle and Equipment</u>	<u>Insurance</u>	<u>Totals</u>
OPERATING REVENUES			
Charges for services:			
Equipment rentals	\$ 237,563	\$ -	\$ 237,563
Insurances	-	677,879	677,879
Other	395	24,510	24,905
	<u>237,958</u>	<u>702,389</u>	<u>940,347</u>
Total operating revenues	<u>237,958</u>	<u>702,389</u>	<u>940,347</u>
OPERATING EXPENSES			
Costs of services	175,301	-	175,301
Fringe benefits	-	710,512	710,512
Depreciation	100,381	-	100,381
	<u>275,682</u>	<u>710,512</u>	<u>986,194</u>
Total operating expenses	<u>275,682</u>	<u>710,512</u>	<u>986,194</u>
OPERATING LOSS	(37,724)	(8,123)	(45,847)
NONOPERATING REVENUE			
Interest revenue	1,655	2,924	4,579
	<u>1,655</u>	<u>2,924</u>	<u>4,579</u>
CHANGE IN NET ASSETS	(36,069)	(5,199)	(41,268)
NET ASSETS - BEGINNING	839,208	51,933	891,141
	<u>839,208</u>	<u>51,933</u>	<u>891,141</u>
NET ASSETS - ENDING	\$ 803,139	\$ 46,734	\$ 849,873
	<u>\$ 803,139</u>	<u>\$ 46,734</u>	<u>\$ 849,873</u>

COMBINING STATEMENT OF CASH FLOWS - internal service funds

Year ended June 30, 2006

	<u>Motor Vehicle and Equipment</u>	<u>Insurance</u>	<u>Totals</u>
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from interfund services provided	\$ 237,958	\$ 702,389	\$ 940,347
Payments to suppliers	(132,895)	(701,733)	(834,628)
Payments to employees	(38,589)	-	(38,589)
Net cash provided by operating activities	<u>66,474</u>	<u>656</u>	<u>67,130</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Acquisition of capital assets	<u>(71,839)</u>	<u>-</u>	<u>(71,839)</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received	<u>1,655</u>	<u>2,924</u>	<u>4,579</u>
NET INCREASE (DECREASE) IN CASH	<u>(3,710)</u>	<u>3,580</u>	<u>(130)</u>
CASH - BEGINNING	<u>169,887</u>	<u>6,456</u>	<u>176,343</u>
CASH - ENDING	<u>\$ 166,177</u>	<u>\$ 10,036</u>	<u>\$ 176,213</u>
Reconciliation of operating loss to net cash provided by operating activities:			
Operating loss	\$ (37,724)	\$ (8,123)	\$ (45,847)
Adjustments to reconcile operating loss to net cash provided by operating activities:			
Depreciation	100,381	-	100,381
Decrease in prepaids	-	8,809	8,809
Increase (decrease) in payables	<u>3,817</u>	<u>(30)</u>	<u>3,787</u>
Net cash provided by operating activities	<u>\$ 66,474</u>	<u>\$ 656</u>	<u>\$ 67,130</u>

SUPPLEMENTARY DATA

City of Allegan

SCHEDULE OF LOAN RETIREMENT -

\$1,373,796 1998 MICHIGAN ECONOMIC DEVELOPMENT CORPORATION NOTE

June 30, 2006

<u><i>Fiscal period</i></u>	<u><i>Principal</i></u>
2007	\$ 62,302
2008	62,302
2009	62,302
2010	62,302
2011	62,302
2012	62,302
2013	<u>62,300</u>
	<u>\$ 436,112</u>

City of Allegan**SCHEDULE OF BOND RETIREMENT AND ANNUAL INTEREST REQUIREMENTS -
\$3,000,000 1998 GENERAL OBLIGATION TAX IMPROVEMENT BONDS**

June 30, 2006

<u>Fiscal period</u>	<u>Interest requirements</u>		<u>Maturity date</u>	<u>Principal</u>	<u>Total requirements</u>
	<u>November 1</u>	<u>May 1</u>			
2007	\$ 48,684	\$ 42,964	11/01/06	\$ 260,000	\$ 351,648
2008	42,964	36,845	11/01/07	275,000	354,809
2009	36,845	30,433	11/01/08	285,000	352,278
2010	30,433	23,533	11/01/09	300,000	353,966
2011	23,533	16,130	11/01/10	315,000	354,663
2012	16,130	8,330	11/01/11	325,000	349,460
2013	8,330	-	11/01/12	340,000	348,330
	<u>\$ 206,919</u>	<u>\$ 158,235</u>		<u>\$ 2,100,000</u>	<u>\$ 2,465,154</u>

City of Allegan**SCHEDULE OF NOTE RETIREMENT AND ANNUAL INTEREST REQUIREMENTS -
\$607,000 1999 INSTALLMENT PURCHASE AGREEMENT NOTE PAYABLE**

June 30, 2006

<i>Fiscal period</i>	<i>Interest requirements August 1</i>	<i>Maturity date</i>	<i>Principal</i>	<i>Total requirements</i>
2007	\$ 15,023	08/01/06	\$ 51,977	\$ 67,000
2008	12,502	08/01/07	54,498	67,000
2009	9,859	08/01/08	57,141	67,000
2010	7,087	08/01/09	59,913	67,000
2011	<u>2,114</u>	08/01/10	<u>88,614</u>	<u>90,728</u>
	<u>\$ 46,585</u>		<u>\$ 312,143</u>	<u>\$ 358,728</u>

City of Allegan

**SCHEDULE OF BOND RETIREMENT AND ANNUAL INTEREST REQUIREMENTS -
\$360,000 2004 USDA AIRPORT REVENUE BONDS**

June 30, 2006

<u>Fiscal period</u>	<u>Interest requirements</u>		<u>Maturity date</u>	<u>Principal</u>	<u>Total requirements</u>
	<u>July 1</u>	<u>January 1</u>			
2007	\$ 7,208	\$ 7,177	07/01/06	\$ 7,000	\$ 21,385
2008	7,060	7,027	07/01/07	7,000	21,087
2009	6,951	6,856	07/01/08	8,000	21,807
2010	6,744	6,684	07/01/09	8,000	21,428
2011	6,575	6,513	07/01/10	8,000	21,088
2012	6,407	6,342	07/01/11	8,000	20,749
2013	6,273	6,170	07/01/12	8,000	20,443
2014	6,070	5,977	07/01/13	9,000	21,047
2015	5,880	5,785	07/01/14	9,000	20,665
2016	5,690	5,592	07/01/15	9,000	20,282
2017	5,531	5,377	07/01/16	10,000	20,908
2018	5,290	5,163	07/01/17	10,000	20,453
2019	5,079	4,949	07/01/18	10,000	20,028
2020	4,868	4,713	07/01/19	11,000	20,581
2021	4,662	4,456	07/01/20	12,000	21,118
2022	4,384	4,199	07/01/21	12,000	20,583
2023	4,131	3,921	07/01/22	13,000	21,052
2024	3,857	3,642	07/01/23	13,000	20,499
2025	3,602	3,342	07/01/24	14,000	20,944
2026	3,288	3,021	07/01/25	15,000	21,309
2027	2,972	2,699	07/01/26	15,000	20,671
2028	2,655	2,357	07/01/27	16,000	21,012
2029	2,331	1,992	07/01/28	17,000	21,323
2030	1,960	1,607	07/01/29	18,000	21,567
2031	1,581	1,221	07/01/30	18,000	20,802
2032	1,201	814	07/01/31	19,000	21,015
2033	805	364	07/01/32	21,000	22,169
2034	358	-	07/01/33	14,000	14,358
	<u>\$ 123,413</u>	<u>\$ 117,960</u>		<u>\$ 339,000</u>	<u>\$ 580,373</u>

City of Allegan**SCHEDULE OF BOND RETIREMENT AND ANNUAL INTEREST REQUIREMENTS -
\$850,000 1996 WATER SUPPLY SYSTEM REVENUE BONDS**

June 30, 2006

<u>Fiscal period</u>	<u>Interest requirements</u>		<u>Maturity date</u>	<u>Principal</u>	<u>Total requirements</u>
	<u>November 1</u>	<u>May 1</u>			
2007	\$ 11,417	\$ 11,417	05/01/07	\$ 75,000	\$ 97,834
2008	9,355	9,355	05/01/08	75,000	93,710
2009	7,255	7,255	05/01/09	80,000	94,510
2010	4,975	4,975	05/01/10	80,000	89,950
2011	2,655	2,655	05/01/11	90,000	95,310
	<u>\$ 35,657</u>	<u>\$ 35,657</u>		<u>\$ 400,000</u>	<u>\$ 471,314</u>

City of Allegan**SCHEDULE OF BOND RETIREMENT AND ANNUAL INTEREST REQUIREMENTS -
\$650,000 2001 WATER SUPPLY SYSTEM REVENUE BONDS**

June 30, 2006

<u>Fiscal period</u>	<u>Interest requirements</u>		<u>Maturity date</u>	<u>Principal</u>	<u>Total requirements</u>
	<u>November 1</u>	<u>May 1</u>			
2007	\$ 11,416	\$ 11,416	05/01/07	\$ 40,000	\$ 62,832
2008	10,596	10,596	05/01/08	40,000	61,192
2009	9,746	9,746	05/01/09	45,000	64,492
2010	8,756	8,756	05/01/10	45,000	62,512
2011	7,733	7,733	05/01/11	45,000	60,466
2012	6,675	6,675	05/01/12	50,000	63,350
2013	5,475	5,475	05/01/13	50,000	60,950
2014	4,250	4,250	05/01/14	55,000	63,500
2015	2,875	2,875	05/01/15	55,000	60,750
2016	<u>1,500</u>	<u>1,500</u>	05/01/16	<u>60,000</u>	<u>63,000</u>
	<u>\$ 69,022</u>	<u>\$ 69,022</u>		<u>\$ 485,000</u>	<u>\$ 623,044</u>

City of Allegan

**SCHEDULE OF BOND RETIREMENT AND ANNUAL INTEREST REQUIREMENTS -
\$7,200,000 2004 CAPITAL IMPROVEMENT BONDS**

June 30, 2006

<u>Fiscal period</u>	<u>Interest requirements</u>		<u>Maturity date</u>	<u>Principal</u>	<u>Total requirements</u>
	<u>November 1</u>	<u>May 1</u>			
2007	\$ 163,026	\$ 163,026	05/01/07	\$ 230,000	\$ 556,052
2008	159,576	159,576	05/01/08	240,000	559,152
2009	154,776	154,776	05/01/09	245,000	554,552
2010	149,876	149,876	05/01/10	260,000	559,752
2011	144,676	144,676	05/01/11	270,000	559,352
2012	138,601	138,601	05/01/12	280,000	557,202
2013	132,301	132,301	05/01/13	290,000	554,602
2014	125,051	125,051	05/01/14	305,000	555,102
2015	117,426	117,426	05/01/15	325,000	559,852
2016	110,114	110,114	05/01/16	340,000	560,228
2017	102,464	102,464	05/01/17	355,000	559,928
2018	93,145	93,145	05/01/18	370,000	556,290
2019	83,433	83,433	05/01/19	390,000	556,866
2020	73,195	73,195	05/01/20	220,000	366,390
2021	67,475	67,475	05/01/21	230,000	364,950
2022	61,495	61,495	05/01/22	245,000	367,990
2023	55,125	55,125	05/01/23	255,000	365,250
2024	48,495	48,495	05/01/24	270,000	366,990
2025	41,475	41,475	05/01/25	285,000	367,950
2026	33,994	33,994	05/01/26	300,000	367,988
2027	26,119	26,119	05/01/27	315,000	367,238
2028	17,850	17,850	05/01/28	330,000	365,700
2029	9,188	9,188	05/01/29	350,000	368,376
	<u>\$ 2,108,876</u>	<u>\$ 2,108,876</u>		<u>\$ 6,700,000</u>	<u>\$ 10,917,752</u>

Allocation by activity:

	<u>Interest</u>	<u>Principal</u>	<u>Total</u>
Governmental activities	\$ 1,639,852	\$ 2,885,000	\$ 4,524,852
Business-type activities	2,477,725	3,545,000	6,022,725
Component Unit (DDA)	100,175	270,000	370,175
	<u>\$ 4,217,752</u>	<u>\$ 6,700,000</u>	<u>\$ 10,917,752</u>

**SECURITIES AND EXCHANGE COMMISSION RULE 15C2-12 CONTINUING DISCLOSURE
(UNAUDITED)**

**City of Allegan
Taxable Value
Fiscal Years Ended June 30, 2002 Through 2006**

Assessed Value as of December 31	Year of State Equalization and Tax Levy	City of Allegan's Fiscal Years Ended June 30	Ad Valorem Taxable Value	Equivalent Taxable Value of Property Granted Tax Abatement Under Act 198 (1)	Total Taxable Value	Percent Increase Over Prior Year
2000	2001	2002	\$ 102,620,764	\$ 21,242,489	\$ 123,863,253	6.21%
2001	2002	2003	114,220,256	20,800,679	135,020,935	9.01%
2002	2003	2004	122,713,077	21,218,606	143,931,683	6.60%
2003	2004	2005	136,392,872	19,106,398	155,499,270	8.04%
2004	2005	2006	142,584,135	38,375,462	180,959,597	16.37%

Per Capita Total Taxable Value for the Fiscal Year Ending June 30, 2006 (2) \$39,067

(1) At the full tax rate. See "Tax Abatement."

(2) Based on City of Allegan's 2000 census population of 4,632.

Source: City of Allegan

**City of Allegan
Total Taxable Value by Use and Class
Fiscal Years Ended June 30, 2002 Through 2006**

Use	Fiscal Years Ended June 30,				
	2002	2003	2004	2005	2006
Agriculture	\$ 45,372,477	\$ 48,287,960	\$ 50,828,951	\$ 53,255,111	\$ 35,226,577
Commercial	25,325,526	29,076,643	31,553,955	34,558,414	48,979,493
Industrial	50,845,250	55,152,341	59,159,324	65,231,295	94,225,253
Residential	2,310,900	2,494,600	2,379,922	2,444,700	2,518,300
Utility	9,100	9,391	9,531	9,750	9,974
	<u>\$ 123,863,253</u>	<u>\$ 135,020,935</u>	<u>\$ 143,931,683</u>	<u>\$ 155,499,270</u>	<u>\$ 180,959,597</u>
Class	2002	2003	2004	2005	2006
Real Property	\$ 86,262,503	\$ 93,534,235	\$ 98,723,279	\$ 105,437,736	\$ 123,521,097
Personal Property	37,600,750	41,486,700	45,208,404	50,061,534	57,438,500
	<u>\$ 123,863,253</u>	<u>\$ 135,020,935</u>	<u>\$ 143,931,683</u>	<u>\$ 155,499,270</u>	<u>\$ 180,959,597</u>

Source: City of Allegan

(UNAUDITED)

City of Allegan
State Equalized Valuation
Fiscal Years Ended June 30, 2002 Through 2006

<u>Assessed Value as of December 31</u>	<u>Year of State Equalization and Tax Levy</u>	<u>City of Allegan's Fiscal Years Ended June 30</u>	<u>Ad Valorem SEV</u>	<u>SEV of Property General Tax Abatement Under Act 198</u>	<u>Total SEV</u>	<u>Percent Increase Over Prior Year</u>
2000	2001	2002	\$ 118,685,200	\$ 45,893,200	\$ 164,578,400	2.35%
2001	2002	2003	130,944,200	45,449,700	176,393,900	7.18%

Per Capita Total SEV for the Fiscal Year Ending June 30, 2006 (2)..... \$44,233

(1) See "Tax Abatement."

(2) Based on City of Allegan's 2000 census population of 4,632.

Source: City of Allegan

City of Allegan
Total SEV by Use and Class
Fiscal Years Ended June 30, 2002 Through 2006

<u>Use</u>	<u>Fiscal Years Ended June 30</u>				
	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>
Agriculture	\$ 9,100	\$ 14,000	\$ 54,100	\$ 54,100	\$ 65,300
Commercial	26,136,000	29,788,600	32,880,091	35,317,767	39,843,450
Industrial	76,618,600	80,935,000	93,076,196	93,359,900	90,182,700
Residential	59,503,800	63,161,700	65,584,400	68,162,962	72,276,650
Utility	2,310,900	2,494,600	2,417,000	2,444,700	2,518,300
	<u>\$ 164,578,400</u>	<u>\$ 176,393,900</u>	<u>\$ 194,011,787</u>	<u>\$ 199,339,429</u>	<u>\$ 204,886,400</u>
<u>Class</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>
Real Property	\$ 121,783,500	\$ 129,665,800	\$ 141,045,787	\$ 144,044,529	\$ 147,447,900
Personal Property	42,794,900	46,728,100	52,966,000	55,334,900	57,438,500
	<u>\$ 164,578,400</u>	<u>\$ 176,393,900</u>	<u>\$ 194,011,787</u>	<u>\$ 199,379,429</u>	<u>\$ 204,886,400</u>

Source: City of Allegan

(UNAUDITED)

Tax Abatement

The City of Allegan's taxable value does not include the value of certain facilities, which have temporarily been removed from the Ad Valorem Tax Roll pursuant to Act 198 (the Act). The Act was to provide a stimulus in the form of significant tax incentives to industrial enterprises to renovate and expand aging facilities ("Rehab Properties") and to build new facilities ("New Properties"). Except as indicated below, under the provisions of the Act, a local governmental unit (i.e., a city, village, or township) may establish plant rehabilitation districts and industrial development districts and offer industrial firms certain property tax incentives or abatements to encourage restoration or replacement of obsolete facilities and to attract new facilities to the area.

An industrial facilities exemption certificate granted under the Act entitles an eligible facility to exemption from Ad Valorem Taxes for a period of up to 12 years. In lieu of Ad Valorem Taxes, the eligible facility will pay an industrial facilities tax (the "IFT Tax"). For properties granted tax abatement under the Act, there exists a separate tax roll referred to as the industrial facilities tax roll (the "IFT Tax Roll"). The IFT Tax for an obsolete facility, which is being restored or replaced, is determined in exactly the same manner as the Ad Valorem Tax; the important difference being that the value of the property remains at the taxable value level prior to the improvements even though the restoration or replacement substantially increases the value of the facility. For a new facility, the IFT Tax is also determined the same as the Ad Valorem Tax but, instead of using the total mills levied as Ad Valorem Taxes, a lower millage rate is applied. For abatements granted prior to 1994, this millage rate equals $\frac{1}{2}$ of all tax rates levied by other than the state and local school district for operating purposes plus $\frac{1}{2}$ of the 1993 rate levied by the local school district for operating purposes. For abatements granted after 1994, this millage rate equals $\frac{1}{2}$ of all tax rates levied by other than the state plus none, $\frac{1}{2}$, or all of the state tax rate (as determined by the State Treasurer).

The City of Allegan has established goals, objectives, and procedures to provide the opportunity for industrial development and expansion. Since 1974, the City of Allegan has approved a number of applications for local property tax relief for industrial firms. Most abatements have been for new industrial facilities. The SEV of properties, which have been granted tax abatement under the Act, removed from the Ad Valorem Tax Roll, and placed on the IFT Tax Rolls, totaled \$40,520,600 for the fiscal year ending June 30, 2006. The IFT Taxes paid on these properties is equivalent to Ad Valorem Taxes paid on \$20,260,300 of taxable value at the full tax rate (the "Equivalent Taxable Value"). Upon expiration of the industrial facilities exemption certificates, the current equalized valuation of the abated properties will return to the Ad Valorem Tax Roll as taxable value.

City of Allegan
Maximum Property Tax Rates
Fiscal Year Ended June 30, 2006

Millage Classification	Millage Authorized	Applicable Millage Reduction Fraction (1)	Maximum Allowable Millage
Operating	17.5000	16.4884	16.4884
Library	1.0000	.9421	.9421
Library (voted)	.5000	.4939	.4939

(1) Cumulative.

Source: City of Allegan

City of Allegan
Property Tax Rates
Fiscal Years Ended June 30, 2002 Through 2006

Levy December 1	Fiscal Year Ended June 30	Allocated Operating	Library	Total
2001	2002	16.6131	4.4469	21.06
2002	2003	16.6114	1.4467	18.0581
2003	2004	16.6114	1.4467	18.0581
2004	2005	16.4884	1.4359	17.9243
2005	2006	16.4884	1.4359	17.9243

Source: City of Allegan

City of Allegan
Property Tax Collections
Fiscal Years Ended June 30, 2002 Through 2006

Levy December 1	Fiscal Year Ended June 30	Tax Levy (1)	Collections to March 1 Following Levy	Percent Collected
2001	2002	\$ 1,704,838	\$ 1,643,130	96.38%
2002	2003	1,897,347	1,814,614	95.64%
2003	2004	2,038,425	1,940,010	95.17%
2004	2005	2,248,889	2,032,671	90.39%
2005	2006	2,542,614	2,439,932	95.96%

(1) City taxes only. Includes taxes on properties granted tax abatement under Act 198. See "Tax Abatement."

Source: City of Allegan

(UNAUDITED)

**City of Allegan
Ten Largest Taxpayers
Fiscal Year Ended June 30, 2006**

<u>Taxpayer</u>	<u>Principal Product or Service</u>	<u>Taxable Value (1)</u>	<u>% of Total (2)</u>
L Perrigo	Health and beauty aids \$ 81,038,362		44.78%
Haworth Inc.	Office systems	5,226,851	2.89%
High Point Apartments	Apartments	4,542,377	2.51%
DFS-SPV-LP	Utility	2,147,900	1.19%
Consumers Energy	Utility	1,817,614	1.00%
J.H. Packaging	Packaging	1,792,400	0.99%
Data Sales Inc.	Leasing	1,296,700	0.72%
Charter Communications	Cable utility	1,061,900	0.59%
Sterla Properties LLC	Apartments	1,036,200	0.57%
Village Market Inc	Grocery Store	909,600	0.50%
		<u>\$ 100,869,904</u>	<u>55.74%</u>

(1) Includes the Equivalent Taxable Value of property granted tax abatement under Act 198. See "Tax Abatement."

(2) Based on \$180,959,597, which is City of Allegan's Total Taxable Value for its fiscal year ended June 30, 2006. Includes the equivalent taxable value of property granted tax abatement under Act 198. See "Tax Abatement."

Source: City of Allegan

**City of Allegan
Legal Debt Margin
As of June 30, 2006**

Debt Limit (1)		\$ 20,488,640
Debt Outstanding	\$ 10,772,255	
Less: Exempt Debt	<u>885,000</u>	
		<u>9,887,255</u>
Legal Debt Margin		<u>\$ 10,601,385</u>

(1) 10% of \$204,886,400, which is the City of Allegan's Total SEV for the fiscal year ended June 30, 2006. Includes the SEV of property granted tax abatement under Act 198. See "Tax Abatement."

Source: Municipal Advisory Council of Michigan and City of Allegan

(UNAUDITED)

**City of Allegan
Debt Statement
As of June 30, 2006**

<u>City of Allegan Direct Debt</u>	<u>Gross</u>	<u>Self-Supporting</u>	<u>Net</u>
General Obligation Issues:			
Dated June 23, 2004 (Limited Tax)	\$ 6,700,000	\$ -	\$ 6,700,000
Dated July 29, 2003 (Limited Tax)	339,000	-	339,000
Dated June 1998 (Limited Tax)	312,143	-	312,143
Dated February 1, 1998 (Limited Tax)	2,100,000	-	2,100,000
Subtotal	<u>9,451,143</u>	<u>-</u>	<u>9,451,143</u>
Water Revenue Bonds:			
Dated May 1, 2001	485,000	485,000	-
Dated April 1, 1996	400,000	400,000	-
Subtotal	<u>885,000</u>	<u>885,000</u>	<u>-</u>
MEDC Loan Agreement:			
Dated October 1, 1997	436,112	-	436,112
Subtotal	<u>436,112</u>	<u>-</u>	<u>436,112</u>
Total	<u>\$ 10,772,255</u>	<u>\$ 885,000</u>	<u>\$ 9,887,255</u>

Per Capita Net City of Allegan Direct Debt (1) \$2,135
Percent of Net Direct Debt to Total SEV (2) 4.83%

<u>Overlapping Debt (3)</u>	<u>Gross</u>	<u>City Share As Percent of Gross</u>	<u>Net</u>
Allegan Public Schools	\$ 43,886,513	31.91%	\$ 14,004,186
Allegan Intermediate School District	330,000	6.11%	20,163
Allegan County	<u>10,468,430</u>	<u>3.95%</u>	<u>413,503</u>
Totals	<u>\$ 54,684,943</u>		<u>\$ 14,437,852</u>

Per Capita Net Overlapping Debt (1) \$3,117
Percent of Net Overlapping Debt to Total SEV (2) 7.05%

Per Capita Net Direct and Overlapping Debt (1) \$5,252
Percent of Net Direct and Overlapping Debt to Total SEV (2) 11.87%

(1) Based on City of Allegan's 2000 census population of 4,632.

(2) Based on \$204,886,400 which is City of Allegan's Total SEV for the fiscal year ended June 30, 2006. Includes the SEV of property granted tax abatement under Act 198. See "Tax Abatement."

(3) Overlapping debt is the portion of another taxing unit's debt for which property taxpayers of City of Allegan are liable in addition to debt issued by City of Allegan.

Source: Municipal Advisory Council of Michigan and City of Allegan

(UNAUDITED)